STONE GROUP HOLDINGS LIMITED

(Stock Code: 409)

INTERIM REPORT 2006/07

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 2006 with figures for the corresponding period in 2005 as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2006 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September 2006 $'000	2005 $'000
Turnover	*3*	**928,824**	895,796
Cost of sales and services		**(687,489)**	(621,902)
Gross profit		**241,335**	273,894
Other revenue		**10,323**	6,337
Other net income/(loss)		**259**	(72)
		251,917	280,159
Distribution costs		**(181,781)**	(222,874)
Administrative expenses		**(55,887)**	(46,827)
Other operating expenses		**(13,310)**	(16,943)
Non-operating expenses	*5*	**(64,960)**	(78,078)
Finance costs	*6(a)*	**(16,254)**	(18,065)
Share of profits less losses of associates		**5,758**	6,343
Share of loss of a jointly controlled entity		**–**	(5,101)
Loss before taxation	*6*	**(74,517)**	(101,386)
Income tax	*7*	**(8,070)**	(1,959)
Loss after taxation		**(82,587)**	(103,345)
Attributable to:			
– Equity shareholders of the Company		**(53,909)**	(68,825)
– Minority interests		**(28,678)**	(34,520)
Loss after taxation		**(82,587)**	(103,345)
Loss per share	*9*	**(3.46) cents**	(4.57) cents

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

CONSOLIDATED BALANCE SHEET

at 30 September 2006 – unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 September 2006**		At 31 March 2006	
		$'000	**$'000**	$'000	$'000
Non-current assets					
Fixed assets					
– Investment properties			**88,274**		88,274
– Property, plant and equipment			**111,762**		114,001
			200,036		202,275
Goodwill			**1,136,614**		1,136,614
Other intangible assets			**33,322**		33,617
Interest in associates			**410,486**		388,468
Other financial assets			**43,188**		44,046
Deferred tax assets			**3,937**		4,358
			1,827,583		1,809,378
Current assets					
Trading securities		**583,676**		683,875	
Inventories	*10*	**199,729**		135,408	
Trade and other receivables	*11*	**612,416**		386,904	
Pledged deposits		**56**		145	
Cash and cash equivalents		**370,994**		581,761	
		1,766,871		1,788,093	
Current liabilities					
Bank loans		**2,477**		2,670	
Other loan	*12*	**116,835**		116,385	
Trade and other payables	*13*	**385,885**		316,067	
Current taxation		**37,358**		31,642	
		542,555		466,764	
Net current assets			**1,224,316**		1,321,329
Total assets less current liabilities			**3,051,899**		3,130,707

CONSOLIDATED BALANCE SHEET

at 30 September 2006 – unaudited *(Cont'd)*

(Expressed in Hong Kong dollars)

	Note	At 30 September 2006 $'000	At 30 September 2006 $'000	At 31 March 2006 $'000	At 31 March 2006 $'000
Non-current liabilities					
Convertible notes	*14*		**552,593**		574,001
Deferred tax liabilities			**854**		852
			553,447		574,853
NET ASSETS			**2,498,452**		2,555,854
CAPITAL AND RESERVES	*15*				
Share capital			**155,994**		150,891
Reserves			**2,019,188**		2,052,463
Total equity attributable to equity shareholders of the Company			**2,175,182**		2,203,354
Minority interests			**323,270**		352,500
TOTAL EQUITY			**2,498,452**		2,555,854

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 2006 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 September			
		2006		2005	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Total equity at 1 April:			**2,555,854**		2,541,105
Net income recognised directly in equity:					
Exchange differences on translation of the financial statements of foreign entities	*15*		**14,131**		15,249
Capital reserves on shares repurchased	*15*		**666**		–
Changes in fair value of available-for-sale securities	*15*		**(929)**		(7,266)
Net income recognised directly in equity			**13,868**		7,983
Impairment loss realised	*15*		**–**		7,266
Net loss for the period	*15*		**(82,587)**		(103,345)
Total recognised income and expense for the period			**(68,719)**		(88,096)
Attributable to:					
Equity shareholders of the Company		**(41,300)**		(53,751)	
Minority interests		**(27,419)**		(34,345)	
		(68,719)		(88,096)	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2006 – unaudited *(Cont'd)*

(Expressed in Hong Kong dollars)

		Six months ended 30 September			
		2006		2005	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Dividend approved and paid during the period	*15*		**(12,533)**		(19,642)
Dividends paid to minority shareholders	*15*		**(3,417)**		(61,820)
Shares repurchased	*15*		**(2,800)**		–
Movements in equity arising from capital transactions:					
Movements in share capital and share premium					
– shares issued upon conversion of convertible notes	*15*	**5,769**		3,846	
– shares repurchased	*15*	**(666)**		–	
– share premium received	*15*	**23,358**		15,498	
		28,461		19,344	
Share of minority interest on disposal of subsidiaries	*15*	**1,606**		(2,430)	
			30,067		16,914
Total equity at 30 September			**2,498,452**		2,388,461

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 2006 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2006	2005
	$'000	*$'000*
Net cash used in operating activities	**(215,396)**	(108,670)
Net cash from/(used in) investing activities	**33,994**	(64,587)
Net cash (used in)/from financing activities	**(18,275)**	26,761
Net decrease in cash and cash equivalents	**(199,677)**	(146,496)
Effect on foreign exchange rate changes	**(11,090)**	6,837
Cash and cash equivalents at 1 April	**581,761**	504,510
Cash and cash equivalents at 30 September	**370,994**	364,851
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	**34,222**	149,688
Cash at bank and in hand	**336,772**	215,163
	370,994	364,851

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 14 December 2006.

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 2005/06 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 ("HKFRSs").

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.

The financial information relating to the financial year ended 31 March 2006 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 year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 July 2006.

2 SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005/06 annual financial statements.

The HKICPA has issued a number of new and revised HKFRSs, which term collectively included HKASs and Interpretations, that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Group has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 March 2007 on the basis of HKFRSs currently in issue, which the Group believes, do not have a significant impact on the Group's prior year financial position and results of operations.

The new and revised HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 March 2007 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of this interim financial 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.

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.

3 SEGMENT INFORMATION *(Cont'd)*

An analysis of the Group's turnover and results by business segments for the six months ended 30 September 2006 is set out below:

	Turnover Six months ended 30 September		Segment results Six months ended 30 September	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Principal activities				
Manufacturing, distribution and sale of healthcare products	**326,943**	384,944	**270**	11,106
Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services	**598,923**	507,640	**10,606**	(8,718)
Media-related business	**2,958**	3,212	**(2,851)**	(2,817)
	928,824	895,796	**8,025**	(429)
Unallocated operating income and expenses			**(7,086)**	(6,056)
Segment result			**939**	(6,485)
Non-operating expenses			**(64,960)**	(78,078)
Finance costs			**(16,254)**	(18,065)
Share of profits less losses of associates			**5,758**	6,343
Share of loss of a jointly controlled entity			**–**	(5,101)
Loss before taxation			**(74,517)**	(101,386)
Income tax			**(8,070)**	(1,959)
Loss after taxation			**(82,587)**	(103,345)

3 SEGMENT INFORMATION *(Cont'd)*

No analysis of the Group's turnover and results 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 results 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.

5 NON-OPERATING EXPENSES

	Six months ended 30 September	
	2006	2005
	$'000	$'000
Net realised/unrealised losses on trading securities	**(55,580)**	(72,004)
Excess of interest in fair value of the acquiree's identifiable assets over cost of business combination	**2,845**	–
Gain on disposal of available-for-sale securities	**–**	17,267
Gain/(loss) on disposal of interest in subsidiaries	**7,479**	(2,059)
Loss on disposal of associates	**–**	(2,714)
Provision for impairment losses on available-for-sale securities	**–**	(7,266)
Provision for impairment losses on other receivables	**(19,704)**	(12,679)
Others	**–**	1,377
	(64,960)	(78,078)

6 LOSS BEFORE TAXATION

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

	Six months ended 30 September	
	2006	2005
	$'000	$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**11,744**	15,506
Interest on other loan	**3,313**	1,486
Other borrowing costs	**1,197**	1,073
Total borrowing costs	**16,254**	18,065
(b) Other items:		
Amortisation of other intangible assets	**957**	933
Depreciation	**6,208**	5,661
Cost of inventories	**686,200**	620,266
Provision for write-down in value of obsolete inventories	**1,275**	135
Impairment losses for bad and doubtful debts	**1,888**	6,549
Loss/(gain) on disposal of property, plant and equipment	**8**	(814)
Management fees	**1,724**	1,681
Dividend income from listed securities	**(379)**	–

7 INCOME TAX

	Six months ended 30 September	
	2006	2005
	$'000	$'000
Current tax		
Provision for Hong Kong Profits Tax	**–**	–
Provision for income tax outside Hong Kong in the PRC ("PRC enterprise income tax")	**7,647**	837
	7,647	837
Deferred tax		
Origination and reversal of temporary differences	**423**	1,122
	8,070	1,959

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 enterprise income tax is calculated at the applicable rates on the estimated taxable income earned by the companies in the PRC.

8 DIVIDENDS

	Six months ended 30 September	
	2006	2005
	$'000	$'000
Final dividend in respect of the financial year ended 31 March 2006, approved and paid during the following interim period, of 0.8 cent per share (2005: 1.3 cents per share)	**12,533**	19,642

9 LOSS PER SHARE

The calculation of loss per share is based on the loss for the period attributable to equity shareholders of the Company of $53,909,000 (2005: $68,825,000) and the weighted average number of approximately 1,557,485,000 ordinary shares (2005: 1,505,686,000 shares) in issue during the period. Diluted loss per share for the period is not presented because the existence of outstanding convertible notes and the Company's share option schemes during the period ended 30 September 2005 and 2006 has an anti-dilutive effect on the calculation of diluted loss per share.

10 INVENTORIES

Included in inventories are raw materials, work in progress and finished goods carried at net realisable value of $20,568,000 (31 March 2006: $21,497,000).

11 TRADE AND OTHER RECEIVABLES

	At 30 September 2006 $'000	At 31 March 2006 $'000
Debtors, prepayments and other receivables	**527,057**	323,849
Gross amount due from customers for contract work	**1,769**	6,267
Amounts due from associates	**66,855**	40,166
Amounts due from related companies	**16,735**	16,622
	612,416	386,904

11 TRADE AND OTHER RECEIVABLES *(Cont'd)*

All of the trade and other receivables are expected to be recovered within one year.

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due ranging from 60 days to 90 days from the date of billing. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

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

	At 30 September 2006	At 31 March 2006
	$'000	*$'000*
Current	**360,694**	187,660
Due over 6 months but within 12 months	**16,967**	2,723
	377,661	190,383

12 OTHER LOAN

	At 30 September 2006	At 31 March 2006
	$'000	*$'000*
Secured and repayable on demand	**116,835**	116,385

12 OTHER LOAN *(Cont'd)*

The other loan from a financial institution is secured by 2,500,000 shares (31 March 2006: 2,500,000) of SINA Corporation held by the Group with carrying value of US$62.9 million (equivalent to approximately $490 million) (31 March 2006: US$69.8 million) as at 30 September 2006. The other loan bears interest at a rate of LIBOR plus 0.5% per annum and is repayable on demand.

13 TRADE AND OTHER PAYABLES

	At 30 September 2006 $'000	At 31 March 2006 $'000
Creditors, accruals and other payables	**374,020**	304,940
Gross amount due to customers for contract work	**1,089**	–
Amounts due to associates	**–**	264
Amounts due to related companies	**10,776**	10,863
	385,885	316,067

All of the trade and other payables are expected to be settled within one year.

13 TRADE AND OTHER PAYABLES *(Cont'd)*

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

	At 30 September 2006 *$'000*	At 31 March 2006 *$'000*
Due within 6 months or on demand	**195,499**	78,131
Due after 6 months but within 12 months	**711**	721
Due after 12 months but within 24 months	**331**	79
Due after 24 months but within 36 months	**31**	37
	196,572	78,968

14 CONVERTIBLE NOTES

	At 30 September 2006 *$'000*	At 31 March 2006 *$'000*
Balance at 1 April	**574,001**	742,770
Conversion during the period/year	**(29,155)**	(19,363)
Repurchased during the year	**–**	(170,335)
Effective interest for the period/year	**7,747**	20,929
Balance at 30 September 2006/31 March 2006	**552,593**	574,001

14 CONVERTIBLE NOTES *(Cont'd)*

(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 was exercisable by the placing agent on or before 13 January 2005. In 2003, Original Notes of $220 million were issued. During the period ended 31 March 2005, the remaining Original Notes of $180 million were issued pursuant to the placing agreement. 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 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.

14 CONVERTIBLE NOTES *(Cont'd)*

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 $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.

(b) On 4 March 2004, convertible notes of approximately $572 million (the "Notes") were issued 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 holder 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 year ended 31 March 2006, $20 million Original Notes were converted into 38,461,538 ordinary shares of the Company *(note 15)*.

14 CONVERTIBLE NOTES *(Cont'd)*

(d) On 20 December 2005, the Company entered into a Repurchase Agreement with Ready Finance Limited, pursuant to which the Company has conditionally agreed to repurchase $191,955,403 nominal value of the Company's approximately $566 million outstanding Notes (the "Repurchase") held by Ready Finance Limited for a cash consideration of $145,406,003. Upon completion, the said repurchased Notes were cancelled, and approximately $374 million of the remaining outstanding Notes maturing 3 March 2009 continue to be held by Ready Finance Limited. The gain of $24,930,000 arising from the Repurchase has been included in "Non-operating income" in the consolidated income statement for the year ended 31 March 2006.

(e) During the period, $30 million Original Notes were converted into 57,692,307 ordinary shares of the Company *(note 15)*.

15 CAPITAL AND RESERVES

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Capital reserve $'000	Other reserve $'000	Investment revaluation reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Sub-total $'000	Minority interests $'000	Total $'000
At 1 April 2005	147,248	1,138,980	151	14,105	112,668	–	4,044	700,782	2,117,978	423,127	2,541,105
Dividend approved and paid during the year *(note 8)*	–	–	–	–	–	–	–	(19,642)	(19,642)	–	(19,642)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(64,102)	(64,102)
Unrealised loss on revaluation of available-for-sale securities	–	–	–	–	–	(7,506)	–	–	(7,506)	–	(7,506)
Impairment loss realised	–	–	–	–	–	7,506	–	–	7,506	–	7,506
Shares issued upon conversion of convertible notes	3,846	16,388	–	–	(890)	–	–	–	19,344	–	19,344
Repurchase of convertible notes	–	–	–	–	(34,182)	–	–	34,182	–	–	–
Shares repurchased	(203)	–	203	–	–	–	–	(838)	(838)	–	(838)
Share of capital reserve of an associate	–	–	–	72	–	–	–	–	72	–	72
Share of minority interest in additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	(415)	(415)
Share of minority interest on disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(2,378)	(2,378)
Exchange differences arising on consolidation	–	–	–	–	–	–	22,532	–	22,532	159	22,691
Profit for the year	–	–	–	–	–	–	–	63,908	63,908	(3,891)	60,017
At 31 March 2006	150,891	1,155,368	354	14,177	77,596	–	26,576	778,392	2,203,354	352,500	2,555,854
At 1 April 2006	150,891	1,155,368	354	14,177	77,596	–	26,576	778,392	2,203,354	352,500	2,555,854
Dividend approved and paid during the period *(note 8)*	–	–	–	–	–	–	–	(12,533)	(12,533)	–	(12,533)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(3,417)	(3,417)
Unrealised loss on revaluation of available-for-sale securities	–	–	–	–	–	(929)	–	–	(929)	–	(929)
Shares issued upon conversion of convertible notes	5,769	24,694	–	–	(1,336)	–	–	–	29,127	–	29,127
Shares repurchased	(666)	–	666	–	–	–	–	(2,800)	(2,800)	–	(2,800)
Share of minority interest on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	1,606	1,606
Exchange differences arising on consolidation	–	–	–	–	–	–	12,872	–	12,872	1,259	14,131
Loss for the period	–	–	–	–	–	–	–	(53,909)	(53,909)	(28,678)	(82,587)
At 30 September 2006	**155,994**	**1,180,062**	**1,020**	**14,177**	**76,260**	**(929)**	**39,448**	**709,150**	**2,175,182**	**323,270**	**2,498,452**

15 CAPITAL AND RESERVES *(Cont'd)*

(a) Purchase of own shares

During the period, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		$	*$*	*$'000*
28 August 2006	500,000	0.405	0.400	201
29 August 2006	1,000,000	0.415	0.410	414
30 August 2006	1,000,000	0.420	0.415	419
1 September 2006	850,000	0.435	0.430	368
4 September 2006	1,000,000	0.435	0.415	429
5 September 2006	700,000	0.420	0.415	293
6 September 2006	206,000	0.425	0.425	87
7 September 2006	200,000	0.420	0.420	84
22 September 2006	200,000	0.425	0.425	85
25 September 2006	394,000	0.425	0.420	166
26 September 2006	196,000	0.420	0.420	82
27 September 2006	200,000	0.420	0.420	84
28 September 2006	80,000	0.420	0.420	34
29 September 2006	130,000	0.415	0.410	54
	6,656,000			2,800

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of $666,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of $2,134,000 was charged to retained profits.

(Expressed in Hong Kong dollars)

15 CAPITAL AND RESERVES *(Cont'd)*

(b) Equity settled share-based transactions

At 30 September 2006, the outstanding options were as follows:

Date granted	Exercise period	Exercise price $	Number of options outstanding
Options granted to directors and contracted employees			
22 May 2002	22 May 2002 to 21 May 2012	0.792	15,968,000
22 May 2002	22 August 2002 to 21 May 2012	0.792	16,122,000
22 May 2002	22 August 2003 to 21 May 2012	0.792	16,122,000
22 May 2002	22 August 2004 to 21 May 2012	0.792	16,122,000
22 May 2002	22 August 2005 to 21 May 2012	0.792	16,122,000
31 December 2002	31 December 2002 to 30 December 2012	0.476	103,856,000
			184,312,000

No options were exercised during the six months ended 30 September 2006 (2005: Nil). During the six months ended 30 September 2006, 7,000,000 share options were lapsed.

16 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 September 2006	At 31 March 2006
	$'000	*$'000*
Contracted for	**–**	233

17 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	
	2006	2005
	$'000	$'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	**759**	1,923
– Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services	**1,724**	1,681
– Rental paid for staff quarters	**489**	477
– Rental income on properties	**399**	389

17 MATERIAL RELATED PARTY TRANSACTIONS *(Cont'd)*

	Six months ended 30 September	
	2006	2005
	$'000	$'000
(b) Transactions with associates of the Group:		
– Purchase of traded products and component parts	**3,329**	641

(c) 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. Such arrangement was terminated with effect from 1 April 2006.

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 2006.

KPMG
Certified Public Accountants

Hong Kong, 14 December 2006

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2006, the Group's unaudited turnover was HK$929 million, an increase of 3.7% over the same period last year, while gross profit decreased by 11.9% to HK$241 million. During the period, the overall operation had improved from an operating loss of HK$6.49 million for the same period last year and turned around to an operating profit of HK$939,000. However, the market value of SINA shares held by the Group had decreased by US$2.75 per share at the end of the period when compared with that of US$27.9 per share at the beginning of the period, thus recording an unrealised loss of HK$51.50 million for the period. Therefore, the Group had recorded a loss attributable to shareholders of HK$53.91 million during the period, an improvement of 21.7% when compared with the loss of HK$68.83 million over the same period last year.

BUSINESS REVIEW

During the period under review, the consolidated turnover was HK$929 million, an increase of HK$33.03 million over the same period last year. Of which, the electronic products business and the internet cafe business had an aggregate turnover of HK$602 million, representing 64.8% of the Group's turnover, an increase of HK$91.03 million over the same period last year. The turnover of healthcare products business was HK$327 million, representing 35.2% of the Group's total turnover, a decrease of HK$58 million over the same period last year. The followings are the sales figures of various products during the period:

			For the six months ended 30 September		
			2006	2005	% Increase/
			HK$'000	*HK$'000*	(Decrease)
1.	Electronic Products Business				
	a.	*Self-produced*			
		Printers	**97,492**	87,045	12.0%
		Gold tax and tax control products	**17,696**	12,051	46.8%
		Others	**17,837**	19,292	(7.5)%
	b.	*Distribution*			
		Industrial controllers	**292,245**	329,236	(11.2)%
		Power supply equipment	**44,689**	29,813	49.9%
		Digital graphic products	**4,210**	6,175	(31.8)%
		Computer equipment and others	**81,347**	9,322	772.6%
		Others	**43,407**	14,706	195.2%
2.	Media-related Business		**2,958**	3,212	(7.9)%
3.	Healthcare Products Business				
		Naobaijin	**206,449**	215,802	(4.3)%
		GoldPartner	**120,432**	169,142	(28.8)%
		Huang Jin Xue Kang	**62**	–	N/A
			928,824	895,796	

Electronic Products Business

During the period under review, the operation of electronic products business had improved significantly, the turnover increased by 18.0% from HK$508 million for the same period last year to HK$599 million, while gross profit also rose by 28.0% to HK$61.25 million. The overall gross profit margin increased by 0.8 percentage point to 10.2%. With regards to operation, there was a successful turnaround from an operating loss of HK$8.72 million for the same period last year to an operating profit of HK$10.61 million.

The increase in turnover was partly benefited from an increased sales in self-produced printers and gold tax products. During the period, printer products had recorded an increase of 12.0% and its turnover had reached HK$97.49 million, representing 10.5% of the Group's total turnover and 16.3% of the turnover of electronic products business. The Stone passbook printers, under its own intellectual property right, were well accepted by the finance industry, especially the nationwide rural credit cooperatives, once they were being introduced into the market. Its market share rose in a steady pace. We expect that there was much room for further development of the Group's dot matrix printers. In addition, the gross profit margin of printers for the period still maintained at a higher level of 15.6%, an increase of 0.4 percentage point in gross profit margin over the same period last year. With regards to the growth of gold tax products, it was mainly attributed to the fact that the relevant authorities had required taxpayers to upgrade their computers from DOS version to Window version, thus leading to a higher demand for gold tax products. Although the sales of tax control machines was unsatisfactory, however, the overall sales of tax products still reached HK$17.70 million, an increase of 46.8% over the same period last year, and the gross profit margin also reached 58.8%, representing a 11.3 percentage points increase over the same period last year. More importantly, the business segment is now rationalising its service contents and modes, and leveraging on the resources of over 30,000 enterprises and 70,000 individual users after many years of hard work, it aims to enlarge its operating scale to accomplish quicker growth.

On the other hand, the growth in distribution trade had also contributed to the increase in turnover of the electronic products business. The turnover of uninterrupted power supply products, computer equipments and electronic components had recorded a significant growth during the period. During the period, the Group's turnover of the uninterrupted power supply products was HK$44.69 million, recorded an increase of 49.9% over the same period last year, which representing 4.8% and 7.5% of total turnover and the turnover of electronic products business respectively. However, owing to a decrease in gross profit margin by 2.5 percentage points in comparing with the same period last year, the gross profit of uninterrupted power supply products had reduced by 7.6% in comparing with the same period last year. Furthermore, during the period, the Group recorded an increase in turnover from the distribution of semiconductor, computer equipments and electronic component products. The turnover of these products had reached HK$125 million, which is an increase of 419.2% over the same period last year, and representing 13.4% and 20.8% of the total turnover and the turnover of electronic products business respectively. The computer equipments include IBM computers and assessories, while the electronic components products include cellular phone lens sensors, LCD panel and so on. However, during the period, owing to the problem of paralleled goods, the turnover of industrial controller products which were distributed by the Group had reduced by 11.2% in comparing with the same period last year. Although there is a decrease in sales of the industrial controller products, it remains the single product with the largest turnover among the turnover of all the products of the Group, which had reached HK$292 million, representing 31.5% and 48.8% of the Group's total turnover and the turnover of electronic products business respectively. During the period, the gross profit margin of industrial controller products maintained at 6.7%, which is similar to last year, with a gross profit recorded at HK$19.56 million.

The operations of electronic products business had improved. Apart from the aforesaid reason of increase in turnover, it was also benefited from the business consolidation throughout the last two years. On one hand, the rationalising and changing of traditional agency sales model, on the other hand, the diversified measures in closing down, deactivating, merging and/or transferring of businesses units had decreased the number of prolonged loss-making business units in the electronic products business, and thus further alleviate the burden of the Group.

With regards to the media-related business, although turnover had reduced by 7.9% when compared with the same period last year, the gross profit, however, had increased by 5.8%, and gross profit margin had also increased by 7.3 percentage points. The internet cafe chain operated by a subsidiary had improved during the period with the operating loss decreased from HK$3.33 million of same period last year to HK$2.10 million. During the period, the Group had reviewed the direction of the internet cafe operation and by reclassified its operating income, closed down of the loss-making franchises and retained the franchises which are either profitable or with potential to be profitable, the gross profit had increased even the turnover was dropped during the period. The number of Group's internet cafe was 37 at the end of the period. There were over 5,300 computer terminals and approximately 21,000 users were on line per day. During the period, Me To You Holdings Limited ("MTY"), a 40% owned company of the Group, had introduced one of its new products in the communication and navigation business, namely Explorer 303, and had received positive reception, and sold over 2,500 sets. Owing to the policy change in the positioning services offered by China Mobile and augmented by the failure to introduce the cellular phone communicating and navigating services as scheduled, MTY had recorded unsatisfactory results with a turnover of only HK$48.17 million, decreased by 30% in comparing with the same period last year, and its profit after taxation was only HK$9.79 million, which is a decrease of 66% in comparing with the same period last year. Furthermore, China Cable Media Group Limited, which was incorporated by the Group with other investors, holds 31.96% shareholdings of China Cable Information Network Co., Ltd. ("CCN"), and becomes the single largest shareholder of that company as at the period end. CCN is the only cross-regional municipal cable television network group company in the PRC, which owns the cable network of the 18 cities along the wealthy coastal regions in the PRC. The company has a customer base of over 2.5 million subscribers, and had become the largest cable television operator in the PRC. During the period, its operating performance was very satisfactory and had contributed to the Group's attributable earnings of HK$4.14 million.

Healthcare Products Business

With regards to healthcare products business, owing to the promulgation of the "Provisional Requirements on Review of Advertisement of Healthcare Food Product" by the PRC government on 1 July last year, it was being influenced by market rationalization and operating performance was slightly worsened during the period. The turnover decreased by 15.1% when compared with the same period last year, reaching only HK$327 million, and gross profit was decreased by 20.5% to HK$178 million, while gross profit margin dropped by 3.7 percentage points to 54.6%.

During the period, in order to adapt to the changes of the market environment, the Group had a number of measures to improve the operating conditions of healthcare products business. Firstly, in terms of logistics, the relevant subsidiary had established a bar-code system successfully during the period, which enabling the products flow to be accurately tracked starting from vendors to warehousing movements and to distributors, helping to reduce the inventory level of the subsidiary significantly, lowering the delinquency rate of inventory delivery and extended great assistance in fortifying inventory control. It had also enhanced the product freshness at market end. Furthermore, the sales department had devoted a lot of efforts in products marketing which includes the introduction of new packaging, determining product market such as the efficacy market, as well as price re-determination measures; with the purpose of excelling the position of the products of the Group and enables them to become the most popular products in the market. However, owing to the promulgation of the "Provisional Requirements on Review of Advertisement of Healthcare Food Products" by the PRC government, the advertisement of healthcare food products could not be released if not being reviewed, especially for healthcare food products that highlighted with special efficacy. Therefore, the GoldPartner of the Group that emphasised in efficacy was directly affected because the advertising influence was not well promoted and resulted a decrease in sales of 28.8% to HK$120 million when compared with the same period last year; while the advertisement of Naobaijin that focuses on gifts market was not seriously affected. The sales of which had just decreased by 4.3% to HK$206 million when compared with the same period last year. During the period, the gross profit margin of GoldPartner also decreased by 5.3 percentage points to 67.0% because of new packaging and the gross profit margin of Naobaijin remained unchanged at 47.4%. Although sales of healthcare products had decreased, however, the monthly sales analysis had depicted that the hard work of the management is not wasted. When compared with average market decrease of about 20%, it had already excelled itself. This reflects a successful marketing strategy on products for it had minimized effects of external negative impacts to the Group.

Furthermore, the Group had introduced a new product named Huang Jin Xue Kang, the efficacy of which is to reduce blood lipids and it is planned to be introduced in a few cities at the moment. We will observe the market response on the product and it is believed that the introduction of new product will bring growth potential to the Group.

LIQUIDITY AND FINANCIAL POSITION

The current ratio and quick ratio of the Group at the end of the period were 3.26 and 2.89 respectively. Cash and cash equivalents held were HK$371 million. Total equity attributable to the equity shareholders of the Company had decreased from HK$2,203 million at the beginning of the period to HK$2,175 million as at the end of the period, reflecting the financial position of the Group continue to remain healthy. Besides, after detailed assessment of other receivables by the management, provision for impairment losses were made for bad and doubtful debts.

At the beginning of the period, the total principal value of the convertible debt securities of the Group was HK$621 million, of which a principal of HK$247 million was the convertible debt securities with an interest rate of 3% per annum and at a conversion price of HK$0.52 per share. The remaining balance was the convertible debt securities with zero interest rate and at a conversion price of HK$0.76 per share. During the period, a principal value of HK$30 million convertible debt securities at a conversion price of HK$0.52 per share were converted into 57,692,307 ordinary shares of the Company. The total interest-bearing bank loans and other loans of the Group at the end of the period were HK$672 million, representing a decrease of 3% when compared with the beginning of the period, while the ratio of net borrowings to total equity attributable to equity shareholders of the Company was 13.8%.

The Group had available banking facilities of HK$152 million at the end of the period. It is comprised of letter of credit facilities, overdraft and other credit facilities. The Group had utilised approximately HK$119 million of its credit facilities. The Group believes that its internal generated fund and its existing banking facilities are able to meet the capital investment and working capital requirements of the Group in the second half of the year.

CHARGES ON ASSETS

As at 30 September 2006, a property with carrying value of approximately HK$23.70 million and a fixed deposit of HK$56,000 were pledged by the Group as collateral against the banking facilities and a term loan granted to the subsidiaries of the Group. In addition, part of SINA shares held by the Group were pledged to a securities company against a margin loan of US$15 million granted to the Group.

CONTINGENT LIABILITIES

As at 30 September 2006, the Group had no contingent liabilities.

HEDGING

As the majority of the Group's purchases are 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 2006, the Group had a total of 8,109 (2005: 8,839) employees, of which 8,084 (2005: 8,811) are employed in the PRC with the remaining 25 (2005: 28) employed in Hong Kong. Out of the 8,109 employees in the PRC, 5,747 (2005: 6,523) were temporary employees.

In addition to basic salaries and bonuses, employees are also entitled to other benefits, including medical allowances and both Hong Kong and PRC employees have participated in the mandatory provident fund and the Central Pension Scheme and the supplementary defined contribution retirement plans managed by independent insurance companies respectively. Share options are also being granted to certain employees as incentives.

OUTLOOK FOR THE YEAR

The management is cautiously optimistic regarding the business development in the second half of the year. The operating performance of electronic products business had started to show its momentum in the first half of the year. The management is of the opinion that the achievements are the results of many years of efforts and consolidations, and believes that it will continue such trend in the second half of the year. Although sales of healthcare products business was unsatisfactory, but market statistics show that the market share of the two kinds of products have sustained continuous growth; with GoldPartner increased from 6.08% in 2004 to 9.44% in 2005, and Naobaijin increased from 5.84% to 8.18%. Therefore, the management believes the impacts in the first half of the year is only the reflection of the whole industry in the market, implying that the Group's healthcare products business had basically surpassed this adaptation period. Through new packaging, introduction of new products to the market, the management is optimistic regarding the sales in the second half of the year. With regards to operation of internet cafe, the management will endeavour to achieve the objective to eliminate losses at the end of the year and generates profits for next year. After introducing the cellular phone communication navigation services and customers have adapted to the changes in policies of the domestic telecommunication operators, it is believed that MTY will regain its momentum and improves its profit contributions to the Group in the second half of the year. The prospect of investing in CCN is optimistic and new development is expected in the second half year, however, given the enormous investment amount, it is believed that it will create values for shareholders after due considerations on both capital capability and return benefits.

Subsequent to the period end, the Group continued to sell 16.80 million shares of China Construction Bank Corporation ("CCB") at an average selling price of HK$3.53 per share, realising a cash amount of HK$59.00 million and recorded a slight gain. At the date of the report, the Group still holds 3 million shares of CCB, but the management would not preclude the possibility of subscribing new potential shares in the market again should it has idle and available fund in the future.

DIRECTORS' INTERESTS IN SHARES

The directors of the Company who held office at 30 September 2006 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	Number of shares	Interest in underlying shares pursuant to share options	Interest in underlying shares pursuant to convertible notes	Aggregate interests	Approximate shareholding percentage *(Note 3)*
Duan Yongji	Personal *(Note 1)*	45,075,538	3,900,000	182,692,305	231,667,843	14.85
Shen Guojun	Personal *(Note 1)*	–	4,000,000	–	4,000,000	0.26
Chen Xiaotao	Personal *(Note 1)*	–	8,000,000	–	8,000,000	0.51
Zhang Disheng	Personal *(Note 1)*	–	10,400,000	–	10,400,000	0.67
Shi Yuzhu	Corporate *(Note 2)*	–	–	492,105,264	492,105,264	31.55

Notes:(1) Beijing Stone Investment Company Limited together with its associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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) Co. Ltd., 6.7% by Stone Group Corporation ("SGC") and 51% by the Beijing Stone Investment Company Limited Employees' Shareholdings Society. In addition, SGC indirectly holds 92,374,413 shares in the Company and directly holds 1,062,000 shares in the Company. Messrs. Duan Yongji, Shen Guojun, Chen Xiaotao and Zhang Disheng (collectively as the "said Directors") are also directors of SGC. So long as the said Directors remain as directors of SGC, each of them together with the other employees collectively own interests in the assets of SGC but none of them has any specific interests in SGC.

(2) The interest is held by Ready Finance Limited ("Ready Finance") as beneficial owner. Ready Finance is wholly owned by Mr. Shi Yuzhu who is deemed under the SFO to be interested in the underlying shares held by Ready Finance.

(3) The number of issued ordinary shares of the Company as at 30 September 2006 ("30 September 2006 Issued Share Capital") is 1,559,950,196 and is applied to calculate the relevant percentage.

Save as disclosed herein and in the sections entitled "Share Option Scheme" and "Substantial Interests in the Share Capital of the Company" set out below, none of the directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its 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 the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 12 April 2002 (the "Scheme"). 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 1.4.2006	**Exercised during the Period**	**Lapsed during the Period**	**Outstanding at 30.9.2006**	**Date of grant**	**Exercisable period**	**Exercise price** *HK$*	**% of the total issued shares** *(Note g)*
Duan Yongji *(Note a)*	3,900,000	–	–	3,900,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.25
Shen Guojun *(Note a)*	4,000,000	–	–	4,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.26
Chen Xiaotao *(Note b)*	8,000,000	–	–	8,000,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.51
Zhang Disheng *(Note c)*	10,400,000	–	–	10,400,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.67
Contracted employees *(Note d)*	55,156,000	–	7,000,000 *(Note f)*	48,156,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	3.09
Contracted employees *(Noted a)*	6,000,000	–	–	6,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.38
Contracted employees *(Noted e)*	103,856,000	–	–	103,856,000	31-12-2002	31-12-2002 to 30-12-2012	0.476	6.66

Notes:

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

(f) During the period, a total 7,000,000 options were lapsed following the resignation of the contracted employees.

(g) 30 September 2006 Issued Share Capital is applied to calculate the relevant percentage.

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 and cancelled pursuant to the Scheme.

Save as disclosed above and in the section entitled "Directors' Interests in Shares" and "Substantial Interests in the Share Capital of the Company", at no time during the Period was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or the 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 2006, to the best knowledge of the directors of the Company, the following parties recorded in the register kept by the Company under section 336 of the SFO were 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 interests	Interest in shares	Interest in underlying shares pursuant to share options	Interest in underlying shares pursuant to convertible notes	Aggregate interests	Approximate shareholding percentage *(Note vi)*
Beijing Stone Investment Company Limited	Corporate *(Note i)*	407,110,053	–	–	407,110,053	26.10
Beijing Stone Investment Company Limited Employees' Shareholding Society	Corporate *(Note ii)*	407,110,053	–	–	407,110,053	26.10
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Corporate *(Note ii)*	407,110,053	–	–	407,110,053	26.10
Shenyang Heguang Group Co. Ltd.	Corporate *(Note ii)*	407,110,053	–	–	407,110,053	26.10
SGC	Corporate *(Note ii)*	500,546,466	–	–	500,546,466	32.09
深圳發展銀行深圳人民橋支行	Corporate *(Note iii)*	230,000,000	–	–	230,000,000	14.74
Ready Finance	Corporate *(Note iv)*	–	–	492,105,264	492,105,264	31.55
Duan Yongji	Personal *(Note v)*	45,075,538	3,900,000	182,692,305	231,667,843	14.85
Shi Yuzhu	Corporate *(Note iv)*	–	–	492,105,264	492,105,264	31.55

Notes:

i. 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).

ii. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development (Holdings) Co. Ltd., 6.7% by SGC and 51% by the 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, SGC also beneficially holds 92,374,413 shares indirectly and 1,062,000 shares directly.

iii. 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.

iv. The interest of Ready Finance is held by it as beneficial owner. Please also refer to Note 2 on page 35.

v. The interest of Mr. Duan Yongji is held by him as beneficial owner. Please also refer to Note 1 on page 35.

vi. 30 September 2006 Issued Share Capital is applied to calculate the relevant percentage.

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 interests maintained under section 336 of the SFO as at 30 September 2006.

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

During this Period, 6,656,000 shares in the Company were repurchased by the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and those shares were subsequently cancelled by the Company. Details of the repurchases are summarised as follows:

Date of repurchase	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregation price paid
		$	*$*	*$'000*
28 August 2006	500,000	0.405	0.400	201
29 August 2006	1,000,000	0.415	0.410	414
30 August 2006	1,000,000	0.420	0.415	419
1 September 2006	850,000	0.435	0.430	368
4 September 2006	1,000,000	0.435	0.415	429
5 September 2006	700,000	0.420	0.415	293
6 September 2006	206,000	0.425	0.425	87
7 September 2006	200,000	0.420	0.420	84
22 September 2006	200,000	0.425	0.425	85
25 September 2006	394,000	0.425	0.420	166
26 September 2006	196,000	0.420	0.420	82
27 September 2006	200,000	0.420	0.420	84
28 September 2006	80,000	0.420	0.420	34
29 September 2006	130,000	0.415	0.410	54
Total	6,656,000			2,800

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during this Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The Board of Directors (the "Board") of the Company has adopted its own code on corporate governance practices (the "CG Code") which in addition to applying the principles as set out in the Code on Corporate Governance Practices (the "SEHK Code") contained in Appendix 14 to the Listing Rules, also incorporates the local and international best practices. The CG code set out the corporate governance principles to be applied by the Company and its subsidiaries (the "Group") and the Company considers that effective corporate governance makes an important contribution to corporate success and to enhancement of shareholders value.

During the period under review, in the opinion of the Board, the Company has complied with the code provisions generally. As the code provisions relating to internal control are applicable to the accounting periods commencing on or after 1 July 2005, the Company will abide by requirements of code provision C.2 of the SEHK Code. During the period, the Company progressively carried out review on the internal control of the Group. The Board shall remain open to suggestion for further improvement of internal control, including recommendation from the external auditors of any potential areas for improvement noted during the audit process.

The Audit Committee and the Board are committed to continue improving and strengthening the internal control systems of the Group.

AUDIT COMMITTEE

An audit committee currently comprising four independent non-executive directors, namely Mr. Ng Ming Wah, Charles, Mr. Andrew Y. Yan, Mr. Liu Ji and Mr. Liu Jipeng.

The Group's external auditors have carried out a review of the unaudited financial statements in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim report for the six months ended 30 September 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code (the "Model Code") as set out in Appendix 10 of the Listing Rules as the codes 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 2006.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and relevant employees who may have access to price sensitive information in relation to the securities of the Company.

INTERIM DIVIDEND

The Directors do not recommend a payment of interim dividend for the six months ended 30 September 2006. (2005: Nil)

PUBLICATION OF RESULT ON THE STOCK EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended 30th September, 2006 containing all information required by Paragraph 46 of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board
DUAN Yongji
Chairman

Hong Kong, 14 December 2006