STONE GROUP HOLDINGS LIMITED

(Stock Code: 409)

Interim Report 2008/09

RESULTS

The Board of Directors (the "Board") of Stone Group Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2008 with comparative figures for the corresponding period in 2007 as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2008 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September 2008 $'000	2007 $'000
Turnover	3	**1,339,645**	1,227,354
Cost of sales and services		**(844,634)**	(898,950)
Gross profit		**495,011**	328,404
Other revenue		**14,880**	9,400
Other net (loss)/income		**(2,972)**	858
		506,919	338,662
Distribution costs	5	**(503,639)**	(258,127)
Administrative expenses		**(80,175)**	(70,307)
Other operating expenses		**(17,687)**	(16,405)
Non-operating income	6	**45,841**	656,431
Finance costs	7(a)	**(16,314)**	(15,839)
Share of profits less losses of associates	12	**(121,834)**	4,086
(Loss)/profit before taxation	7	**(186,889)**	638,501
Income tax	8	**25,381**	(110,651)
(Loss)/profit for the period		**(161,508)**	527,850
Attributable to:			
– Equity shareholders of the Company		**(204,617)**	318,393
– Minority interests		**43,109**	209,457
(Loss)/profit for the period		**(161,508)**	527,850
(Loss)/earnings per share	10		
Basic		**(10.39) cents**	18.44 cents
Diluted		**(10.39) cents**	13.00 cents

The notes on pages 7 to 26 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

		Unaudited		Audited	
		At 30 September 2008		At 31 March 2008	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Non-current assets					
Fixed assets	*11*				
– Investment properties			**73,344**		112,341
– Property, plant and equipment			**214,789**		162,101
			288,133		274,442
Goodwill			**1,136,614**		1,136,614
Other intangible assets			**33,951**		34,294
Interest in associates	*12*		**466,210**		585,159
Other financial assets			**53,122**		55,590
Deferred tax assets			**44,357**		14,647
			2,022,387		2,100,746
Current assets					
Trading securities	*13*	**179,154**		958,448	
Inventories	*14*	**273,261**		190,905	
Trade and other receivables	*15*	**1,052,573**		753,566	
Cash and cash equivalents		**507,321**		553,022	
		2,012,309		2,455,941	
Current liabilities					
Bank loans		**183,846**		151,238	
Other loan	*16*	**3,420**		311,240	
Trade and other payables	*17*	**577,760**		376,351	
Convertible notes	*18*	**353,160**		318,184	
Current taxation		**122,249**		143,180	
		1,240,435		1,300,193	
Net current assets			**771,874**		1,155,748
Total assets less current liabilities			**2,794,261**		3,256,494

CONSOLIDATED BALANCE SHEET

at 30 September 2008 – unaudited (Cont'd)

(Expressed in Hong Kong dollars)

		Unaudited		Audited	
		At 30 September 2008		At 31 March 2008	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Non-current liabilities					
Bank loans			**–**		1,875
Convertible notes	*18*		**–**		86,095
Deferred tax liabilities			**1,692**		3,820
			1,692		91,790
NET ASSETS			**2,792,569**		3,164,704
CAPITAL AND RESERVES	*19*				
Share capital			**201,890**		190,929
Reserves			**2,387,264**		2,525,400
Total equity attributable to equity shareholders of the Company			**2,589,154**		2,716,329
Minority interests			**203,415**		448,375
TOTAL EQUITY			**2,792,569**		3,164,704

The notes on pages 7 to 26 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 September			
		2008		2007	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Total equity at 1 April			**3,164,704**		2,841,750
Net income recognised directly in equity:					
Exchange differences on translation of the financial statements of foreign entities	*19*		**26,507**		26,840
Changes in fair value of available-for-sale securities	*19*		**(653)**		(43)
Net income directly recognised in equity			**25,854**		26,797
Transfer from equity:					
Transfer to profit or loss on impairment of available-for-sale securities	*19*		**653**		–
			26,507		26,797
Net (loss)/profit for the period	*19*		**(161,508)**		527,850
Total recognised income and expenses for the period			**(135,001)**		554,647
Attributable to:					
– Equity shareholders of the Company		**(188,225)**		340,510	
– Minority interests		**53,224**		214,137	
		(135,001)		554,647	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2008 – unaudited (Cont'd)

(Expressed in Hong Kong dollars)

		Six months ended 30 September			
		2008		2007	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Dividend approved and paid during the period	*19*		**–**		(23,192)
Dividends paid to minority shareholders	*19*		**(298,184)**		(2,725)
Movements in equity arising from capital transactions:					
Movements in share capital and share premium					
– shares issued upon conversion of convertible notes	*19*	**56,647**		168,326	
– shares issued under share option scheme	*19*	**–**		6,183	
– equity settled share-based transactions	*19*	**4,403**		4,674	
			61,050		179,183
Total equity at 30 September			**2,792,569**		3,549,663

The notes on pages 7 to 26 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 September 2008 $'000	2007 $'000
Net cash used in operating activities	**(295,994)**	(229,874)
Net cash from/(used in) investing activities	**821,406**	(73,469)
Net cash (used in)/from financing activities	**(581,617)**	202,283
Net decrease in cash and cash equivalents	**(56,205)**	(101,060)
Effect on foreign exchange rate changes	**10,504**	8,086
Cash and cash equivalents at 1 April	**553,022**	477,202
Cash and cash equivalents at 30 September	**507,321**	384,228
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	**259,970**	252,443
Cash at bank and in hand	**247,351**	131,785
	507,321	384,228

The notes on pages 7 to 26 form part of this interim financial report.

NOTES TO 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 ("Listing Rules"), 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 17 December 2008.

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 2007/08 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 Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 27.

The financial information relating to the financial year ended 31 March 2008 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 2008 are available from the Company's registered office. The auditor expressed an unqualified opinion on those financial statements in their report dated 22 July 2008.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007/08 annual financial statements.

The HKICPA has issued a number of new and revised HKFRSs, which term collectively included HKASs and Interpretations, that are first effective or available for early adoption for the current accounting period of the Group. Management 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 2009 on the basis of HKFRSs currently in issue, which management 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 2009 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.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's operating results and financial position.

Hong Kong Financial Reporting Standard 8 "Operating segments" and revised HKAS 1 "Presentation of financial statements" which are effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the Group's financial statements for the periods beginning on or after 1 April 2009.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

3 SEGMENT INFORMATION (Cont'd)

An analysis of the Group's turnover and results by business segments for the six months ended 30 September 2008 is set out below:

	Turnover Six months ended 30 September		Segment results Six months ended 30 September	
	2008	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*
Principal activities				
Manufacturing, distribution and sale of healthcare products	**618,482**	480,533	**(77,904)**	12,869
Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services	**717,389**	742,605	**2,906**	(6,241)
Media-related business	**3,774**	4,216	**(299)**	2,780
	1,339,645	1,227,354	**(75,297)**	9,408
Unallocated operating expenses net of income			**(19,285)**	(15,585)
Segment result			**(94,582)**	(6,177)
Non-operating income			**45,841**	656,431
Finance costs			**(16,314)**	(15,839)
Share of profits less losses of associates			**(121,834)**	4,086
(Loss)/profit before taxation			**(186,889)**	638,501
Income tax			**25,381**	(110,651)
(Loss)/profit for the period			**(161,508)**	527,850

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

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 DISTRIBUTION COSTS

Distribution costs mainly represent advertising and promotion expenses of $300,897,000 (2007: $103,226,000) and staff costs of $101,472,000 (2007: $64,896,000).

6 NON-OPERATING INCOME

	Six months ended 30 September	
	2008	2007
	$'000	*$'000*
Net realised/unrealised gain on trading securities	**44,544**	678,184
Loss on deemed disposal of interest in an associate (note 12(a))	**–**	(11,373)
Provision for impairment losses on other receivables	**–**	(10,380)
Others	**1,297**	–
	45,841	656,431

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

7 (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 September	
	2008	2007
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**12,527**	10,404
Interest on other loan	**2,425**	3,872
Other borrowing costs	**1,362**	1,563
Total borrowing costs	**16,314**	15,839
(b) Other items:		
Amortisation of other intangible assets	**1,182**	1,008
Depreciation	**8,556**	7,514
Cost of inventories	**844,159**	898,509
Provision for write-down in value of obsolete inventories made/(written back)	**7,567**	(853)
(Reversal of impairment losses)/impairment losses for bad and doubtful debts	**(1,565)**	8,341
Gain on disposal of property, plant and equipment	**11**	–
Dividend income from trading securities	**(208)**	(271)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

8 INCOME TAX

	Six months ended 30 September	
	2008	2007
	$'000	*$'000*
Current tax		
Provision for Hong Kong Profits Tax	**–**	–
Provision for income tax outside Hong Kong in the PRC ("PRC enterprise income tax")	**6,457**	9,074
	6,457	9,074
Deferred tax		
Origination and reversal of temporary differences	**(31,838)**	101,577
	(25,381)	110,651

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

9 DIVIDENDS

	Six months ended 30 September	
	2008	2007
	$'000	*$'000*
Final dividend in respect of the financial year ended 31 March 2008, approved and paid during the following interim period, of $Nil per share (2007: 1.3 cents per share)	**–**	23,192

10 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss for the period attributable to equity shareholders of the Company of $204,617,000 (2007: profit of $318,393,000) and the weighted average number of approximately 1,968,981,000 ordinary shares (2007: 1,726,685,000 shares) in issue during the period.

(b) Diluted (loss)/earnings per share

The diluted loss per share for the six months ended 30 September 2008 is the same as basis loss per share because the existence of outstanding convertible notes and the Company's share options during the period have an anti-dilutive effect on the calculation of diluted loss per share.

The calculation of diluted earnings per share for the six months ended 30 September 2007 is based on the profit for that period attributable to equity shareholders of the Company of $327,790,000 (after adjusting the effect of conversion of convertible notes and exercise of share options) and the weighted average number of approximately 2,521,149,000 shares in issue during that period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

11 FIXED ASSETS

During the six months ended 30 September 2008, one of the Group's investment properties, which was held to earn rental income in prior years, has been occupied by a subsidiary for administrative purposes. Accordingly, the investment property with carrying value of $39 million has been transferred from "Investment properties" to "Land and buildings held for own use" during the period.

12 INTEREST IN ASSOCIATES

	At 30 September 2008 $'000	At 31 March 2008 $'000
Share of net assets (Notes (a)&(b))	**475,541**	527,444
Goodwill (Note (b))	**63,132**	63,132
	538,673	590,576
Less: Impairment loss (Note (b))	**(72,463)**	(5,417)
	466,210	585,159

(a) On 17 April 2007, the Group served a conversion notice to China Cable Media Group Limited ("CCMG") to exercise the right to convert the bridge loans owed to the Group by CCMG and China Cable Network Co., Ltd. and the unpaid interest totaling US$6,899,441 (equivalent to approximately $53,800,000) into 3,104,749 preference shares of CCMG at the conversion price of US$2.22 per preference share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

12 INTEREST IN ASSOCIATES (Cont'd)

On 18 April 2007, the Group entered into a share purchase agreement with CCMG pursuant to which the Group conditionally agreed to subscribe for and CCMG conditionally agreed to allot and issue 3,150,000 preference shares at a consideration of US$7.0 million (equivalent to approximately $54,600,000), representing a subscription price of US$2.22 per preference share. On the same date, CCMG also entered into subscription agreements pursuant to which the existing financial investor and two new investors conditionally agreed to subscribe for 5,400,001, 4,050,000 and 450,000 new preference shares of CCMG respectively at the subscription price of approximately US$2.22 per preference share.

After all the conversions and subscriptions, the Group's interest in CCMG decreased slightly from 36.9% to 36.12% as at 30 September 2007 (31 March 2008: 36.12%) and a loss on deemed disposal of $11,373,000 was recognised in the prior period accordingly (note 6).

(b) In April 2005, the Group acquired a 40% interest in Me To You Holdings Limited ("Cayman 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 $75,653,000. The goodwill was reduced to $63,132,000 as at 31 March 2008 after receipt of compensation from the vendor pursuant to the sale and purchase agreement (details of which have been set out in the Group's 2007/08 annual financial statements).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

12 INTEREST IN ASSOCIATES (Cont'd)

Due to the recent financial turmoil, the market of Cayman MTY's high value consumer products such as GPS navigators, mobile communication service and telematics service shrank was adversely affected, the operating results of Cayman MTY and its subsidiaries ("MTY Group") for the period were therefore significant below that of the approved budget. In this connection, after consideration of the market demands and financial viability of the MTY Group's business in the foreseeable future, the management has assessed the recoverable amount of the interest in MTY Group and considered that the Group's interest in MTY Group of $67,046,000 is fully impaired. Accordingly, an impairment of the same amount has been recognised and included in "Share of profits less losses of associates" in the consolidated income statement for the period.

13 TRADING SECURITIES

During the six months ended 30 September 2008, the Group has disposed of approximately 2,400,000 ordinary shares of SINA Corporation with a total sales proceed of $841 million. The disposed shares had a total carrying value of $659 million as at 31 March 2008.

14 INVENTORIES

The amount of trading and manufacturing inventories carried at net realisable value is $19,418,000 (31 March 2008: $23,909,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

15 TRADE AND OTHER RECEIVABLES

	At 30 September 2008	At 31 March 2008
	$'000	*$'000*
Debtors, prepayments and other receivables	**949,940**	685,384
Amounts due from associates	**88,683**	58,874
Amounts due from related companies	**10,068**	9,308
Derivative financial instruments	**3,882**	–
	1,052,573	753,566

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

15 TRADE AND OTHER RECEIVABLES (Cont'd)

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

	At 30 September 2008	At 31 March 2008
	$'000	*$'000*
Current	**386,625**	443,215
Due within 6 months	**116,338**	39,967
Due over 6 months but within 12 months	**24,360**	15,634
Due over 12 months but within 24 months	**25,572**	22,411
	552,895	521,227

16 OTHER LOAN

	At 30 September 2008	At 31 March 2008
	$'000	*$'000*
Secured and repayable on demand	**3,420**	311,240

The other loan is secured by 100,000 ordinary shares (31 March 2008: 2,500,000 ordinary shares) of SINA Corporation held by the Group with carrying value of US$3.5 million (equivalent to approximately $27 million) as at 30 September 2008 (31 March 2008: US$88.2 million (equivalent to approximately $686 million)). This loan bears interest at a rate of LIBOR plus 0.5% per annum and is repayable on demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

17 TRADE AND OTHER PAYABLES

	At 30 September 2008 $'000	At 31 March 2008 $'000
Creditors, accruals and other payables	**571,989**	372,292
Amounts due to related companies	**5,771**	4,059
	577,760	376,351

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

Included in creditors, accruals and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	At 30 September 2008 $'000	At 31 March 2008 $'000
Due within 6 months or on demand	**271,474**	88,028
Due after 6 months but within 12 months	**13,950**	244
Due after 12 months but within 24 months	**548**	121
Due after 24 months but within 36 months	**582**	519
	286,554	88,912

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES

	At 30 September 2008 *$'000*	At 31 March 2008 *$'000*
Balance at 1 April 2008/2007	**404,279**	560,431
Conversion during the period/year	**(56,685)**	(168,464)
Effective interest for the period/year	**5,566**	12,312
Balance at 30 September/31 March 2008	**353,160**	404,279

At 30 September 2008 and 31 March 2008, convertible notes were repayable as follows:

	At 30 September 2008 *$'000*	At 31 March 2008 *$'000*
Within 1 year	**353,160**	318,184
After 1 year but within 2 years	**–**	86,095
	353,160	404,279

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

18 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, additional 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.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES (Cont'd)

(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) 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.

(d) During the year ended 31 March 2008, $55 million of the Original Notes and $122 million of the Notes were converted into 105,769,229 and 160,526,313 ordinary shares of the Company respectively (note 19).

(e) During the period, $57 million of the Original Notes were converted into 109,615,383 ordinary shares of the Company (note 19).

(f) The effective interest rate of the Original Notes and the Notes for the six months ended 30 September 2008 is 4% (31 March 2008: 4%).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

19 CAPITAL AND RESERVES

	Share capital	Share premium	Capital redemption reserve	Capital reserve	Other reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Sub-total	Minority interests	Total equity
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 April 2007	155,993	1,180,062	1,021	14,177	76,260	68	67,588	897,384	2,392,553	449,197	2,841,750
Dividend approved and paid during the year (note 9)	–	–	–	–	–	–	–	(23,192)	(23,192)	–	(23,192)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(57,162)	(57,162)
Shares issued under share option scheme	8,386	31,519	–	–	–	–	–	–	39,905	–	39,905
Shares issued upon conversion of convertible notes (note 18)	26,630	150,204	–	–	(8,535)	–	–	–	168,299	–	168,299
Shares repurchased	(80)	–	80	–	–	–	–	(597)	(597)	–	(597)
Share of minority interest in additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	(748)	(748)
Equity settled share-based transactions	–	–	–	27,984	–	–	–	–	27,984	–	27,984
Exchange differences arising on consolidation	–	–	–	–	–	–	94,942	–	94,942	10,797	105,739
Available-for-sale securities:											
– changes in fair value	–	–	–	–	–	(120)	–	–	(120)	–	(120)
– transfer to profit or loss on impairment	–	–	–	–	–	52	–	–	52	–	52
Profit for the year	–	–	–	–	–	–	–	16,503	16,503	46,291	62,794
At 31 March 2008	190,929	1,361,785	1,101	42,161	67,725	–	162,530	890,098	2,716,329	448,375	3,164,704
At 1 April 2008	190,929	1,361,785	1,101	42,161	67,725	–	162,530	890,098	2,716,329	448,375	3,164,704
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(298,184)	(298,184)
Shares issued upon conversion of convertible notes (note 18)	10,961	46,000	–	–	(314)	–	–	–	56,647	–	56,647
Equity settled share-based transactions	–	–	–	4,403	–	–	–	–	4,403	–	4,403
Exchange differences arising on consolidation	–	–	–	–	–	–	16,392	–	16,392	10,115	26,507
Available-for-sale securities:											
– changes in fair value	–	–	–	–	–	(653)	–	–	(653)	–	(653)
– transfer to profit or loss on Impairment	–	–	–	–	–	653	–	–	653	–	653
Loss for the period	–	–	–	–	–	–	–	(204,617)	(204,617)	43,109	(161,508)
At 30 September 2008	**201,890**	**1,407,785**	**1,101**	**46,564**	**67,411**	**–**	**178,922**	**685,481**	**2,589,154**	**203,415**	**2,792,569**

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

19 CAPITAL AND RESERVES (Cont'd)

(a) Equity settled share-based transactions

At 30 September 2008, the outstanding options were as follows:

Date granted	Exercise period	Exercise price	Number of options outstanding
Options granted to directors and contracted employees			
21 August 2007	21 August 2007 to 20 August 2012	$0.714	115,200,000
16 November 2007	16 November 2007 to 15 November 2012	$0.852	9,000,000
			124,200,000

During the six months ended 30 September 2008, no share options (2007: 13,000,000 options) were exercised and no ordinary shares (2007: 13,000,000 shares) of the Company were issued.

During the six months ended 30 September 2008, no share options (2007: 74,356,000 options) were lapsed and no new share options (2007: 115,200,000 options) were granted.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

19 CAPITAL AND RESERVES (Cont'd)

(a) Equity settled share-based transactions (Cont'd)

Share option expenses charged to the consolidated income statement are determined with the binomial model based on the following assumptions:

	21 August 2007	16 November 2007
Fair value of each share option as of the date of grant	$0.31	$0.33
Closing price at the date of grant	$0.71	$0.80
Exercise price	$0.714	$0.852
Expected volatility	50.71%	52.01%
Annual risk-free interest rate	4.15%	3.08%
Expected average life of options	5 years	5 years
Expected dividend yield	1.59%	1.67%

The volatility measured at the standard deviation of annualised expected share price returns is based on statistical analysis of weekly share prices over the five years immediately preceding the grant date.

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

	At 30 September 2008 *$'000*	At 31 March 2008 *$'000*
Contracted for	**608**	2,237
Authorised but not contracted for	**38,815**	38,905
	39,423	41,142

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Hong Kong dollars)

21 MATERIAL RELATED PARTY TRANSACTIONS

Material transactions with related parties during the period were as follows:

	Six months ended 30 September	
	2008	2007
	$'000	*$'000*
(a) Transactions with and amounts paid to or received from Stone Group Corporation, a minority shareholder of the Group:		
– Sale of traded products	**4**	265
– Purchase of traded products and component parts	**58**	744
– Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services	**1,220**	1,746
– Rental paid for staff quarters	**486**	489
– Rental income on properties	**459**	420
(b) Transactions with associates of the Group:		
– Sales of traded products	**30**	1,761
– Purchase of traded products and component parts	**2,978**	2,228

REVIEW REPORT TO THE BOARD OF DIRECTORS OF STONE GROUP HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 1 to 26 which comprises the consolidated balance sheet of Stone Group Holdings Limited as of 30 September 2008 and the related consolidated income statement, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six month period then ended and explanatory notes. 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 directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 December 2008

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2008, the Group achieved an unaudited turnover of HK$1,340 million, up 9.1% over the corresponding period last year, while its gross profit increased by 50.7% to HK$495 million. During the period, both turnover and gross profit again reached a record high for half-year results since the listing of the Group. However, the loss from operating activities for the period rose to HK$94.58 million from HK$6.18 million for the corresponding period last year. This was due to the surge in distribution costs from HK$258 million for the corresponding six-month period last year to HK$504 million for this period. On the other hand, the outbreak of financial turmoil in mid-September resulted in a global stock market slump and, consequently, the closing prices of shares held by the Group fell drastically at the end of the period. Fortunately, the Group disposed of most of its shares in SINA Corporation ("SINA") in June and July and realised a gain of HK$183 million. Nevertheless, the closing price of China Railway Erju A shares as at 30 September was only RMB5.07 per share, leading to an unrealised loss of HK$124 million for the period. Therefore, the non-operating income of the Group amounted to HK$45.84 million for the period, down 93.0% from the corresponding period last year. In addition, Cayman MTY, an associate of the Group, recorded losses in two previous consecutive years. The financial turmoil put the global automobile industry in a difficult situation. In light of these, it was believed that the automobile navigation service to be launched by that company would not be profitable in the short term and, therefore, the management decided to make full impairment loss on this investment. As such, the Group's loss attributable to shareholders for the period amounted to HK$205 million, representing a significant decrease as compared to the profit of HK$318 million for the corresponding period last year.

BUSINESS REVIEW

During the period under review, the Group's turnover was HK$1,340 million, representing an increase of HK$112 million over the corresponding period last year. The IT Electronic and the Media-related Business (collectively "IT Business") recorded a turnover of HK$721 million, accounting for 53.8% of the Group's turnover and decreased by HK$25.66 million as compared to the corresponding period last year. Turnover from healthcare products business amounted to HK$618 million, accounting for 46.2% of the Group's total turnover and increased by HK$138 million over the corresponding period last year.

Sales of our products during the period were as follows:

		Six months ended 30 September 2008 HK$'000	Six months ended 30 September 2007 HK$'000	Increase/ (decrease)
IT Business				
1.	Self-produced			
	Printers	**88,645**	112,634	(21.3)%
	Gold tax and tax control products	**8,077**	12,671	(36.3)%
	Others	**2,746**	9,465	(71.0)%
2.	Distribution			
	Industrial controllers	**501,272**	417,285	20.1%
	UPS equipments	**61**	51,102	(99.9)%
	Digital graphic products	**872**	2,588	(66.3)%
	Computer parts and others	**18,672**	31,656	(41.0)%
	Others	**97,044**	105,204	(7.8)%
3.	Internet cafe chain	**3,774**	4,216	(10.5)%
		721,163	746,821	(3.4)%
Healthcare Products Business				
	Naobaijin	**319,406**	261,880	22.0%
	GoldPartner	**266,839**	215,544	23.8%
	Huang Jin Xue Kang	**20,293**	3,109	552.7%
	Golden Wine	**11,944**	–	N/A
		618,482	480,533	28.7%
		1,339,645	1,227,354	9.1%

IT Business

Owing to the effect of the Beijing Olympic Games and the discontinuance of sales of certain products, the turnover from IT Business during the period slightly declined 3.4% from HK$747 million for the corresponding period last year to HK$721 million for the period. Gross profit increased 15.5% to HK$72.23 million as compared with the corresponding period last year. The increase was mainly due to the strategies to retain only products with higher gross profit by ceasing distribution of lower gross profit products, i.e. UPS products and digital graphic products, and closing down the engineering project operations. Thus, IT Business recorded a gross profit margin of approximately 10.0%, up 1.6 percentage points as compared to the corresponding period last year.

Benefitting from prompt reactions to market demand and customer needs and the constant endeavor to improve Stone self-produced invoice printers, the printer segment managed to maintain sales growth in previous years. Nevertheless, the government implemented various administrative measures around the hosting of the Beijing Olympic Games, resulting in a semi-active environment among many business operations in Beijing. Consequently, sales of our printers during this three-month period was seriously affected. Sales volume declined 21.3% to HK$88.65 million as compared to the corresponding period last year, while gross profit margin grew 4.0 percentage points to 17.0% as compared to the corresponding period last year.

Sales of gold tax products suffered from similar hits and sales in August and September dropped 31.2% as compared to the average sales for the previous four months. Sales for the period decreased 36.3% to a mere HK$8.08 million as compared to the corresponding period last year. In line with the declined sales, gross profit of gold tax products also decreased 47.5% to a mere HK$4.30 million, while gross profit margin dropped 11.4 percentage points to 53.2%.

In previous years, the management of the industrial controller products had been striving for the improvement of after-sales services. Last year, offices and branches in other PRC locations were also established for the purposes of expanding sales network and fostering direct contact with customers. The significance of the above measures was evident during the period when operating activities in Beijing were half suspended amid the Beijing Olympic Games. While competitors cut down their sales activities, our office and branch network acted as distribution channels and created favourable sales for the Group's industrial controller products. Turnover for the period rose 20.1% to HK$501 million. In light of the increase in sales and price cut promotion offered by vendors, gross profit of industrial controller products reached HK$40.39 million, representing a sharp rise of 79.2%, while gross profit margin was 8.1%, up 2.7 percentage points.

Sales of other electronic products, among others, included computer software, electronic accessories and semi-conductors. Sales of computer software were mainly comprised of the distribution and sales of management application software such as Citrix and Symantec Altiris in the PRC. Electronic accessories included camera sensors for mobile phones and LCD panels. Due to the effect of the Beijing Olympic Games, sales of other electronic products for the period totalled HK$118 million, representing a decrease of 19.0% as compared to the corresponding period last year, and contributed HK$9.43 million to the Group's gross profit.

The Beijing Olympic Games also affected the visit rate of the Group's internet cafe chain located in the PRC. Turnover amounted to HK$3.77 million, representing a drop of 10.5% as compared to the last corresponding period, while gross profit declined 13.5% to HK$3.27 million. As at the end of the period, we had a total of 76 self-owned and franchised cafes located in Guangzhou, Dongguan and Foshan.

Healthcare Products Business

During the period under review, turnover of the healthcare products business rose by 28.7% to HK$618 million, while gross profit and gross profit margin were HK$423 million and 68.4%, representing an increase of 59.0% and 13.1 percentage points over the corresponding period last year respectively. The surge in sales was attributable to our tremendous efforts in advertising and marketing promotion as well as the expansion of sales network of Huang Jin Xue Kang to more than 10 provinces/cities during the period from limited areas as in the same period last year. Moreover, Golden Wine, a product manufactured and sold under the cooperation with Health Spirits Co., Ltd of Sichuan Yibin Wuliangye Group, was first launched in a few provinces/cites during the period. The product was well-received by the market and contributed considerable income to the Group. In spite of this, the healthcare products business incurred an operating loss of approximately HK$77.90 million due to the fact that the rises in advertising and promotion costs were higher than that in turnover, while it recorded an operating profit of HK$12.87 million for the corresponding period last year.

With our strategy to launch more advertising campaigns and promotions for capturing greater market shares, both sales of Naobaijin and GoldPartner under the healthcare products business achieved a double-digit growth. Sales of Naobaijin reached HK$319 million, representing a growth of 22.0% over the corresponding period last year. Gross profit reached HK$228 million, representing an increase of 83.2% over the corresponding period last year, while gross profit margin was 71.5%, up 23.9 percentage points as compared to the corresponding period last year. The soaring gross profit was mainly attributable to the entering into an agreement with the sole vendor, pursuant to which and without prejudice to the interest of the Group, the Group has assumed the costs for nationwide TV commercials in exchange for the offer of a lower ex-factory price for Naobaijin by the vendor. GoldPartner had repositioned to a healthcare product for daily consumption since last mid-year and such repositioning was proved to be successful. Sales of GoldPartner increased 46.8% in the previous whole year while kept growing in the period to HK$267 million, representing a rise of 23.8% over the corresponding period last year. Gross profit contribution to the Group amounted to HK$176 million, representing an increase of 26.8% over the corresponding period last year, while gross profit margin reached 66.0%, up 1.5 percentage points as compared to the corresponding period last year. As for Huang Jin Xue Kang, the operating performance obviously improved after increasing points of sale. Turnover for the period increased to HK$20.29 million from HK$3.11 million for the corresponding period last year, with a gross profit of HK$13.79 million. The results of the newly launched Golden Wine were encouraging, with sales of HK$11.94 million and a gross profit of HK$4.41 million in a very short period of time and with a limited sales coverage.

Investment Business

During the period, the Group disposed of 2,402,274 shares in SINA at an average price of US$45.24 per share. The cash proceeds after deducting the repayment of a margin loan of US$39.56 million to a securities firm was approximately US$69.50 million and the gain from such disposal was HK$183 million. As at the end of the period, the Group had 100,000 shares in SINA. Furthermore, following the implementation of the 2007 profit appropriation plan and the issue of bonus shares through the capitalization of the capital reserve (on the basis of 3 bonus shares and 3 conversion shares for every 10 shares) by China Railway Erju in late May this year, the number of China Railway Erju A shares held by the Group increased to 24,275,556 as at the end of the period. Based on the closing price on the period-end date of RMB5.07 per share, the value of such shares was approximately HK$140 million, representing a decrease of HK$124 million as compared to the opening carrying value. The said investments contributed a net total of HK$59.17 million to the Group's non-operating income, representing a drop of HK$609 million as compared with the same period last year.

Our investment business also includes the investments in China Cable Network Co., Ltd. ("CCN") via China Cable Media Group Limited as well as Me To You Holdings Limited ("Cayman MTY"). Benefitted from the Beijing Olympic Games, CCN recorded a net profit of RMB69.78 million for the nine-month period in 2008, a growth of 38.8% as compared with the same period last year, and the number of basic subscribers increased to 3.145 million as at the end of the period as compared to 2.957 million at the beginning of the year. Nevertheless, the operations of Cayman MTY, our another investment, remained sluggish and its other receivable had a recoverability problem as the economic environment become bad, it recorded a surge in loss of HK$126 million for the period as compared with same period last year. Together with the shock of the financial tsunami on the automobile industry and the recent rumours of bankruptcies, the management believed that the automobile navigation services that Cayman MTY planned to launch will suffer a serious blow. In this regard, the management decided to make full impairment loss on the carrying value of the investment.

Save from the above-mentioned investments, the Group's other investments were in the preliminary stage during the period and are yet to have contributions to the Group's profit. The management was in the opinion that there was no need to provide for impairment loss on these investments.

Liquidity and Financial Position

The current ratio and quick ratio of the Group at the period end were 1.62 and 1.40 respectively. Cash and cash equivalents held were HK$507 million. Total equity attributable to the equity shareholders of parent company had decreased from HK$2,716 million at the beginning of the period to HK$2,589 million as at the end of the period. Besides, after careful evaluation on the recoverability of other receivables by the management, appropriate provision for impairment loss was made for the bad and doubtful debts.

At the beginning of the period, the Group's convertible notes amounted to HK$404 million, of which a principal amount of HK$162 million was the convertible notes which bearing an interest of 3% per annum, with a conversion price of HK$0.52 per share. The remaining principal amount was the convertible notes which bearing zero interest, with a conversion price of HK$0.76 per share. During the period, convertible notes with an aggregate principal amount of HK$57 million at a conversion price of HK$0.52 per share was converted into 109,615,383 ordinary shares of the Company. Under Hong Kong Financial Reporting Standards, the convertible notes should be classified into debt and equity components separately. Accordingly, the Group's convertible notes of HK$353 million at the end of the period was recomputed.

In addition, other loan amounting to US$39.56 million was repaid to a financial institution during the period.

Due to the reasons above-mentioned, the Group's aggregated interest-bearing bank loans and other loan at the end of the period were decreased to HK$540 million, representing a drop of 37.8% in comparing with the beginning of the period. The ratio of net borrowings to the total equity attributable to equity shareholders of the Company was maintained at a low level of 20.9%.

The Group has HK$197 million banking facilities available at the end of the period, including letter of credit facilities, overdraft and other standby credit facilities. The Group had utilised approximately HK$187 million of its credit facilities. The Group believes that its internal funding and its existing credit facilities are able to meet its requirements in both of the capital investment and working capital needs for the second-half of the year.

Charges on Assets

As at 30 September 2008, all SINA shares held by the Group had been pledged to a securities firm in order to secure against a US$0.4 million margin loan that granted to the Group.

Contingent Liabilities

As at 30 September 2008, the Group had no material 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 exposure as and when necessary. During the period, the Group did not enter into nor bring forward any foreign exchange forward contracts to hedge against foreign exchange exposure.

Human Resources

As at 30 September 2008, the Group had an aggregate of 10,831 (2007: 10,324) employees; of which 10,809 (2007: 10,299) were employed in the PRC with the remaining 22 (2007: 25) were employed in Hong Kong. Out of the 10,809 employees who employed in the PRC, 8,517 (2007: 8,038) 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.

BUSINESS OUTLOOK

With the financial tsunami started to take a heavy toll, it is believed that the operating environment will still be tense in the second half of the year. The Group's IT business, healthcare products business and investment business will be inevitably affected in the wake of the knock-on effect, such as corporate bankruptcies, unemployment, anaemic consumption and so on. Companies are likely to cut spending in purchasing new printers or industrial controllers for cost control, and the sales of our healthcare products may fall as consumer spending will be deterred by unstable career and lower income. On the other hand, the Group will possibly record further unrealized losses on shares held amid flagging stock market. However, following the full provision for impairment loss on Cayman MTY, it is believed that our other investments are not likely to have a significant and adverse impact on the Group. The management believes that the Group may not post satisfactory annual results under such difficult operating environment. However, in order to protect the interests of our shareholders, we will proactively adopt measures to minimize expenditure and accumulate our reserves during our normal operations. We will be in a good position to leverage on the opportunities arisen after such turmoil and offer the best return for our shareholders.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors of the Company ("Directors") who held office at 30 September 2008 had the following interests or short positions in the shares, underlying shares and debentures of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures 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 or required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or required to be notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"):

Name of Director	Nature of interests	Number of shares	Interest in underlying shares of equity derivatives of the Company pursuant to share options	Interest in underlying shares of equity derivatives of the Company pursuant to convertible notes	Aggregate interests	Approximate shareholding percentage *(Note 3)*
DUAN Yongji	Personal *(Note 1)*	140,896,306	15,000,000	88,461,539	244,357,845 (L)	12.10
SHEN Guojun	Personal *(Note 1)*	–	4,000,000	–	4,000,000 (L)	0.19
CHEN Xiaotao	Personal *(Note 1)*	–	4,000,000	–	4,000,000 (L)	0.19
ZHANG Disheng	Personal *(Note 1)*	–	6,000,000	–	6,000,000 (L)	0.29
SHI Yuzhu	Corporate *(Note 2)*	55,263,157	5,000,000	331,578,947	391,842,104 (L)	19.40
NG Ming Wah, Charles	Personal	1,000,000	2,000,000	–	3,000,000 (L)	0.14
Andrew Y. YAN	Personal	–	2,000,000	–	2,000,000 (L)	0.09
LIU Jipeng	Personal	–	2,000,000	–	2,000,000 (L)	0.09
CHENG Fumin	Personal	–	1,000,000	–	1,000,000 (L)	0.04

L: denotes Long Position

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) 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 (through Wise Expand Developments Limited which is a limited company incorporated in Hong Kong and beneficially owned by SGC) 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. Moreover, Mr. DUAN Yongji is the holder of the convertible notes in the aggregate principal sum of HK$46 million which are convertible into shares of the Company at the conversion price of HK$0.52 per share.

(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. The interest in underlying shares of equity derivatives of the Company pursuant to share options is beneficially owned by Mr. SHI Yuzhu.

(3) The number of issued ordinary shares of the Company as at 30 September 2008 ("30 September 2008 Issued Share Capital") is 2,018,897,121 and is applied to calculate the relevant percentage.

Save as disclosed herein and in the sections entitled "Share Option Scheme" and "Substantial Shareholders' Interests or Short Positions in the Shares, Underlying Shares and Debentures", to the knowledge of the Company, 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 and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or required to be notified to the Company pursuant to the Model Code.

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 1.4.2008	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding at 30.9.2008	Date of grant	Exercisable Period	Exercise price *HK$*	Closing price immediately preceding the date of grant *HK$*	Weighted average closing price of shares immediately before exercise date *HK$*	% of the total issued shares *(Note c)*
DUAN Yongji	*(Note a)*	15,000,000	–	–	–	15,000,000	21-8-2007	21-8-2007 to 20-8-2012	0.714	0.71	N/A	0.74
SHEN Guojun	*(Note a)*	4,000,000	–	–	–	4,000,000	21-8-2007	21-8-2007 to 20-8-2012	0.714	0.71	N/A	0.19
CHEN Xiaotao	*(Note a)*	4,000,000	–	–	–	4,000,000	21-8-2007	21-8-2007 to 20-8-2012	0.714	0.71	N/A	0.19
ZHANG Disheng	*(Note a)*	6,000,000	–	–	–	6,000,000	21-8-2007	21-8-2007 to 20-8-2012	0.714	0.71	N/A	0.29
SHI Yuzhu	*(Note a)*	5,000,000	–	–	–	5,000,000	21-8-2007	21-8-2007 to 20-8-2012	0.714	0.71	N/A	0.24
CHENG Fumin	*(Note b)*	1,000,000	–	–	–	1,000,000	16-11-2007	16-11-2007 to 15-11-2012	0.852	0.84	N/A	0.04
NG Ming Wah, Charles	*(Note b)*	2,000,000	–	–	–	2,000,000	16-11-2007	16-11-2007 to 15-11-2012	0.852	0.84	N/A	0.09
Andrew Y. YAN	*(Note b)*	2,000,000	–	–	–	2,000,000	16-11-2007	16-11-2007 to 15-11-2012	0.852	0.84	N/A	0.09
LIU Jipeng	*(Note b)*	2,000,000	–	–	–	2,000,000	16-11-2007	16-11-2007 to 15-11-2012	0.852	0.84	N/A	0.09
Contracted employees	*(Note a)*	78,200,000	–	–	–	78,200,000	21-8-2007	21-8-2007 to 20-8-2012	0.714	0.71	N/A	3.87

Notes:

(a) The options granted to these grantees shall be exercisable in the following three batches:

(i) Not more than 50% of options granted exercisable from 21-08-2007 to 20-08-2008;

(ii) Not more than 75% of options granted exercisable from 21-08-2008 to 20-08-2009; and

(iii) Free to exercise from 21-08-2009 to 20-08-2012.

(b) The options granted to these grantees shall be exercisable in the following three batches:

(i) Not more than 50% of options granted exercisable from 16-11-2007 to 15-11-2008;

(ii) Not more than 75% of options granted exercisable from 16-11-2008 to 15-11-2009;

(iii) Free to exercise from 16-11-2009 to 15-11-2012.

(c) 30 September 2008 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.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and in the sections entitled "Directors' Interests or Short Position in the Shares, Underlying Shares and Debentures" and "Substantial Shareholders' Interests or Short Position in the Shares, Underlying Shares and Debentures", 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 SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, to the best knowledge of the directors of the Company, the following parties which have interests or short position in the shares, underlying shares and debentures of the Company as recorded in the register kept by the Company under Section 336 of the SFO:

Name	Nature of interests	Interest in shares	Interest in underlying shares of equity derivatives of the Company pursuant to shares options	Interest in underlying shares of equity derivatives of the Company 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 (L)	20.16
Beijing Stone Investment Company Limited Employees' Shareholding Society	Corporate *(Note ii)*	407,110,053	–	–	407,110,053 (L)	20.16
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Corporate *(Note ii)*	407,110,053	–	–	407,110,053 (L)	20.16
Shenyang Heguang Group Co. Ltd.	Corporate *(Note ii)*	407,110,053	–	–	407,110,053 (L)	20.16
SGC	Corporate *(Note ii)*	500,546,466	–	–	500,546,466 (L)	24.79
深圳發展銀行 深圳人民橋支行	Corporate *(Note iii)*	310,000,000	–	–	310,000,000 (L)	15.35
Ready Finance	Corporate *(Note iv)*	55,263,157	–	331,578,947	386,842,104 (L)	19.16
DUAN Yongji	Personal *(Note v)*	140,896,306	15,000,000	88,461,539	244,357,845 (L)	12.10
SHI Yuzhu	Corporate *(Note iv)*	55,263,157	5,000,000	331,578,947	391,842,104 (L)	19.40

L: denotes long position

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 (through Wise Expand Developments Limited) and 1,062,000 shares directly. Wise Expand Developments Limited is a limited company incorporated in Hong Kong and beneficially owned by SGC.

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 38.

v. The interest of Mr. DUAN Yongji is held by him as beneficial owner. Please also refer to Note 1 on page 38.

vi. 30 September 2008 Issued Share Capital is applied to calculate the relevant percentage.

Save as disclosed above, no other persons (other than Directors or chief executive of the Company) known to any Director as at 30 September 2008 had an interest or short position in the shares, underlying shares and debentures of the Company as recorded in the register kept by the Company under Section 336 of the SFO.

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

During the six months ended 30 September 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high level of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investors' confidence. Following the issue of the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules, 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 the requirement of the Code. The Board will continue to commit itself to achieving a high standard of corporate governance.

For the six months ended 30 September 2008, except for the requirement that the roles of Chairman of the Board and Chief Executive Officer of the Company should be separate and should not be performed by the same individual (code provision A.2.1), the Company has complied with the code provisions of the Code.

The roles of Chairman and Chief Executive Officer of the Company have been performed by Mr. DUAN Yongji since March 2007. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as chief executive officer when it thinks appropriate.

AUDIT COMMITTEE

An audit committee currently comprises three independent non-executive Directors, namely Messrs. NG Ming Wah, Charles, Andrew Y. YAN and LIU Jipeng.

At the request of the Audit Committee of the Company, the Group's auditors have carried out a review of the unaudited interim financial report in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA.

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 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the codes of conduct regarding Directors' securities transactions. The Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2008.

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 2008 (2007: Nil).

PUBLICATION OF INTERIM REPORT

The printed copy of the Interim Report of the Company for the six months ended 30 September 2008 will be sent to shareholders by the end of December 2008 and the soft copy of the Interim Report will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com) under "Latest Listed Company Information" and the Company's website (www.stone.com.hk) under "Investor Relations" in due course.

On behalf of the Board
DUAN Yongji
Chairman

Hong Kong, 17 December 2008