STONE

# STONE GROUP HOLDINGS LIMITED

(Stock Code: 409)


## ANNUAL REPORT 2006/07

Planning Tomorrow's Growth
Strengthening Our Future

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

DUAN Yongji *(Chairman and Chief Executive Officer)*

SHI Yuzhu

SHEN Guojun

ZHANG Disheng

CHEN Xiaotao

LIU Wei

### Independent Non-executive Directors

NG Ming Wah, Charles

Andrew Y. YAN

LIU Ji

LIU Jipeng

## AUDIT COMMITTEE

NG Ming Wah, Charles *(Chairman)*

Andrew Y. YAN

LIU Ji

LIU Jipeng

## REMUNERATION COMMITTEE

Andrew Y. YAN *(Chairman)*

NG Ming Wah, Charles

LIU Ji

ZHANG Disheng

LIU Wei

## INVESTMENT COMMITTEE

DUAN Yongji *(Chairman)*

SHI Yuzhu

ZHANG Disheng

CHEN Xiaotao

Andrew Y. YAN

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

HUI Yick Lok, Francis

## REGISTERED OFFICE

27th Floor

K. Wah Centre

191 Java Road

North Point

Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Nanyang Commercial Bank Limited

Citic Ka Wah Bank

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China

Agricultural Bank of China

Hua Xia Bank

Citic Industrial Bank

## AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Charter Road
Central
Hong Kong

## SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## CONTACT INFORMATION OF INVESTOR RELATIONS

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## STOCK CODE

409 (Main Board)

## WEBSITE

www.stone.com.hk

# Company Introduction

## STONE HOLDINGS

Formerly known as Stone Electronic Technology Limited, Stone Group Holdings Limited (Stock code: 409, "the Company") was established on September 3, 1987. After a successful restructuring exercise since 1993, the Company has become the first mainland based non-state-owned share-holding company listed on the Main Board of Stock Exchange of Hong Kong since August 1993. The Company and its subsidiaries ("the Group") principally engaged in IT electronic & media – related business in mainland China, healthcare products business and investment business.

## I.T. ELECTRONIC AND MEDIA-RELATED BUSINESS

The Group's IT electronic and media-related business includes manufacture and distribution of electronic products and the operation of internet café chain. Electronic products include dot matrix printer and value-added tax control machine with intellectual property, and the Group also acts as the agent and distributor of industrial controllers, uninterrupted power system equipment, digital graphics, semiconductors, computers, etc.. Product coverage includes those of SIEMENS and, FUJI etc..

The technology of ticket printing and passbook printing with own-brand and own-intellectual property has now become the standard of invoice printing industry in the People's Republic of China (the "PRC"). The products are mainly used in different banking institutions, tax systems, and telecommunication sectors. The passbook printer mainly operated by the Group has become the well-known brand in the industries of finance, postal and telecommunications. The Group is also one of the founders who commercialised the Gold Tax Project of the PRC, and one of the members of the Gold Tax Project Leading Team. The team consists of four governmental ministries or commissions – State Administration of Taxation, the Ministry of Finance, the Ministry of Electronics Industry, and the Bank of China, and three enterprises – Stone, Great Wall, and China Astronautics.

The Group's TCS Department is a value-added distributor. Its core activities are to provide the high-grade IT solutions required by enterprises. The solutions it possesses including comprehensive solutions for network design, network architecture management, security management, system design and management, design and management of application software, printing administration, problem management, backup, and recovery management. The TCS Department has entered into agreements with a number of overseas famous IT product manufacturers, including Citrix Systems Inc. and Altiris Inc., both of the United States, and Uniprint and HP Compaq, both of Canada, as their general business agent and cooperative partner in China.

In addition, with controlling interest, the Group is operating the internet café chain in Guangdong Province – Guangdong Sunnet Café Development Co., Ltd ("Sunnet Café"). In June 2005, the first full franchised Sunnet Café commenced business in Guangzhou, China. In December of the same year, "the first full franchised Sunnet Café in Dongguan, Guangdong province commenced business. As at the end of March 2007, 63 directly operated and franchised shops are under operation. Shops are mainly located in Guangzhou, Dongguan and Shenzhen. The number of directly operated and franchised shops will be gradually increasing.

## HEALTHCARE PRODUCTS BUSINESS

In December 2003, the Group established its presence in the healthcare product market of the PRC through acquiring 75% equity interest of Shanghai GoldPartner Biotech Co., Ltd and its whole management team. The acquired products "Naobaijin" and "GoldPartner" are among the best selling healthcare products in the PRC. Naobaijin was ranked the best-selling healthcare product in 2005, a recognition previously attained for four consecutive years from year 2000 to 2003. On the other hand, GoldPartner was introduced into the market in 2002. It soon became No. 2 on the sales ranking list and the champion in the category of compound vitamins supplements in the following year. In 2004, GoldPartner was ranked the champion on the national sales ranking list of consumer healthcare products. In 2005, GoldPartner was recognized as one of the 100-best transferred projects awarded by Shanghai Hi-Tech Project Transfer Center. In spring festival of 2006, the Company has started trial marketing of the new product "Huangjin Xuekang".

The Company's core competitiveness lies in its extensive experience in China's healthcare product market and its comprehensive ability to promote a product from strategic planning to implementation. China's largest healthcare product distribution network. In addition, the Company has set up 35 subsidiaries, 128 branch offices and 1700 representative offices, which are all under the direct management of the Company's headquarter. The Company has also set up resident establishments in 1,694 counties and different workstations, such as Jiangsu, Zhejiang and Fujian. These establishments are managed by the relevant subsidiaries or offices. The service institutions, which are directly under the company, have penetrated all areas in China except Hong Kong, Macau, Taiwan and Tibet. Moreover, For our nationwide marketing network, we have 547 first – tier contracted distributors, together with 3,000 distributors and products available over 300,000 major retail outlets in China. The speed of delivery is very fast, it can deliver to 50,000 terminals within two weeks and to 300,000 terminals within four weeks. We believe that high efficient sales management system which the Company has developed a unique and effective channel management mode and a sale management methodology based on a strict management system, good cooperative relationship, and abundant management experience.

## PRINCIPAL INVESTMENT

Regarding the investment business, the Company's investment portfolio mainly consists of China Cable Media Group Limited ("CCMG"), SINA Corporation ("SINA"), and Beijing Me-to-You Information Technology Limited and Beijing Me-to-You System Integration Limited (collectively as "Beijing MTY").

By investing in and then becoming the single largest shareholder of China Cable Network Co., Ltd. ("CCN"), the unique nation-wide and multi-system cable TV operator ("MSO") with highest number of subscribers, CCMG has begun its investment in the PRC cable industry since 2003.

As at 31 March 2007, the total investment of CCMG is RMB402 million. It gradually increased its shareholding stake in CCN to 31.14%.

As at 31 March 2007, CCN owned cable networks in more than 10 cities, including certain wealthy areas in Yangtze River Delta, like Jiangsu and Zhejiang, etc. It had over 2.5 million subscribers. CCMG is currently co-operating with some PRC broadcasting group companies in the area of TV contents.

SINA is a leading online media and value-added infotainment service provider serving mainland China and the Chinese communities throughout the world. SINA operates a number of regional websites for Greater China and overseas Chinese communities. Through five pillar businesses, namely, SINA.com, SINA Mobile, SINA Online, SINA.net, and SINA E-Commerce, the company provides a wide array of services for internet surfers, government and corporate users, including network media and entertainment, online paid value-added/wireless value-added services and electronic administrative solutions.

At present, with over 230 million registered users around the globe, and more than 60 million frequent users of its various paid services, SINA is the most respected internet brand in mainland China and the Chinese communities worldwide. And also, SINA has become the largest network content, service and wireless value-added service provider in mainland China, with the highest income from the two aspects among all industry players. SINA has been named the most valued brand and the most popular website in various surveys.

Established in 2003 and headquartered in Beijing. Beijing MTY's three principal activities are to act as Service Provider (SP), and to provide Global Positioning Services (GPS) and Telematics Service Provider (TSP). Through its unified mobile value-added service platform and nationwide customer service system, it provides entertainment services to the public users and mobile information solutions to corporate users of China. Based on the increase of the number of cars and car owners in the PRC, the GPS, TSP businesses provided by Beijing MTY have a very enormous market opportunity. Such as the launch of Car Safe Driving terminal products for consumers – GPS Safe Driving Voice Notifier "Tanlu 303" and the latest product – GPS Intelligent Navigators "Tanlu 303N", these two products have received positive market response. Beijing MTY now develops navigators equipped with communication function, including MTY-95190G, MTY-95190C and online GPS customer service etc..

# Chairman's Statement

**"With continuous economic growth of the PRC and other emerging countries being accompanied by the severe shortage of mineral resources in the PRC, the business prospect of exploration and development of mineral resources should be auspicious."**


On behalf of the Board of Directors (the "Board") of Stone Group Holdings Limited and its subsidiaries, I am pleased to announce the audited results of the Group for the year ended 31 March 2007. Turnover and profit attributable to shareholders were HK$2,376 million and HK$134 million respectively, and earnings per share amounted to HK8.62 cents. As compared with the figures of the previous year, turnover, profit attributable to shareholders and earnings per share increased by HK$340 million, HK$70.43 million and HK4.38 cents respectively. The Board will recommend the payment of a final dividend of HK1.3 cents per share at the forthcoming annual general meeting.

## BUSINESS REVIEW

The Board is satisfied with the overall performance of the Group for the past year. Turnover increased by 16.7% and profit attributable to shareholders even recorded an increase of 110.2% as compared with the corresponding period last year. As for our core business, the turnover of the IT electronic and media-related business increased by 20.0% as compared with the previous year and recorded a turnaround result at the end from operating loss to operating profit. In particular, our STONE branded printers, which have been manufactured and sold for almost 20 years, and value-added tax control machines, which the Group has been one of the market pioneers, were outstanding in terms of their performance. The revenue of these two products increased by 17.7% and 38.9% respectively. Our zealous efforts for, and the continuous success of our printer business were proof of our persistence for excellence and commitment to innovation. Through the continuous improvements to our outdated products and new market exploration, STONE dot matrix printers remained as a market leader. In respect of value-added tax control machines, the launch of new models was in line with the changing market demand again represented our perseverance and endurance.

With regard to our healthcare products business, an increase of 13.3% in sales was recorded even our management had to overcome the uncertainties arising from market consolidation. However, selling expenses increased as compared with the corresponding period last year in order to comply with the new government regulations in advertisement. As a result, the operating profit of the healthcare products business slightly decreased as compared with the corresponding period last year. However, the Company's market share was on an upward track and brand recognition remained its leading position.

As for our investment business, since the Company was placed with a large number of new shares of China Construction Bank at the end of 2005, the Group has continued to utilize our funds effectively, and to maximise returns for the shareholders by seeking Initial Public Offering ("IPO") investment opportunities. During the year, we also participated in IPO placings of Bank of China, Industrial and Commercial Bank of China, China Merchants Bank, etc. The Group accepted the offer by the Board of China Railway Erju Co., Ltd. ("China Railway Erju") at the beginning of 2007 and participated in its placing of legal person shares. The Group was allotted 18.17 million new shares of China Railway Erju at RMB5.05 per share. As at 31 March 2007, the closing price of this stock was RMB11.8 per share. No further sale or purchase of SINA shares was made by the Group during the year. In addition, CCN, which we hold through CCMG, is engaged in cable broadcasting in the PRC and has developed rapidly. The Group also joined hands with its investment partners to make further investment in CCN via capital injection in CCMG. The investment funds were used for business expansion, network extension and management optimisation of CCN with a view to public listing when opportunity arises. Other investments of the Group included Me To You Holdings Limited ("Cayman MTY") which is mainly engaged in mobile SMS services and automobile GPRS services. Due to the change of policy of China Mobile during the year, Cayman MTY did not achieve its profit as guaranteed to us when we acquired it. However, as the Group remained optimistic about the future of the business and as a measure to reinforce the confidence of the management, the Group decided to take up portion of additional equity interests in Cayman MTY contemplated as the partial compensation under the original share purchase agreement. The Group's shareholding in Cayman MTY will be increased. During the year under review, Beijing MTY successfully launched GPS Safe Driving Voice Notifier "Tanlu 303" and recently introduced GPS Intelligent Navigators "Tanlu 303N", which has been well recognised by major international customers. The Group believes that Cayman MTY will have excellent development potential once its positioning and navigation communication business have been fully operated.

## BUSINESS PROSPECTS

Looking forward, to enhance returns for shareholders and to realise the values of the Company, the management will, on one hand, continue to achieve satisfactory performance in the existing core businesses, and, on the other hand, constantly seek promising investment opportunities. The Company has announced its strategic investment in the exploration of metallic mineral resources this June. As we are a new starter in this field, the Company only invested HK$10,000,000 in this project, representing approximately 16.67% of its equity interests, with a view to minimising investment risks while the remaining equity interests are taken up by other investors with identical business goal. The strategies of the Group are to make a small amount of investment at the initial stage and then consider entering into the mineral resources industry on a larger scale upon finding suitable mineral area, engaging the right professionals and accumulating adequate experience in mining industry. With continuous economic growth of the PRC and other emerging countries, being accompanied by the severe shortage of mineral resource in the PRC, the management believes that the business prospect of exploration and development of mineral resources should be auspicious.

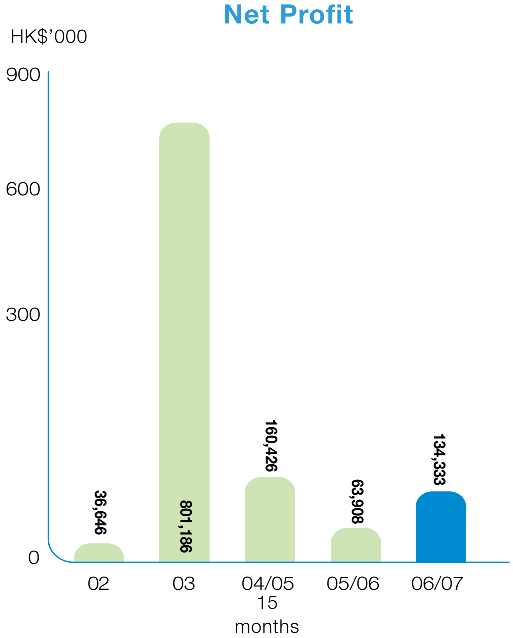
The resignation of Mr. SHI Yuzhu from the position of Chief Executive Officer of the Group in this March constitutes a great loss to the Group. However, he remains as an Executive Director of the Group and takes a strategic role in the operation of our healthcare products business. On behalf of the Board, I would like to extend our appreciation once again for the dedication of Mr. SHI Yuzhu as Chief Executive Officer of the Group for over the past two years. Besides, I would also like to take this opportunity to express my gratitude to the Board for their trust and support to me to take up the position of Chief Executive Officer. Concurrently, I will make every effort to maximise returns for shareholders. Finally, I would like to express profound gratitude to the Board, the management and all our staff for their contributions and dedication to the Group in the past year.

**DUAN Yongji**
*Chairman*

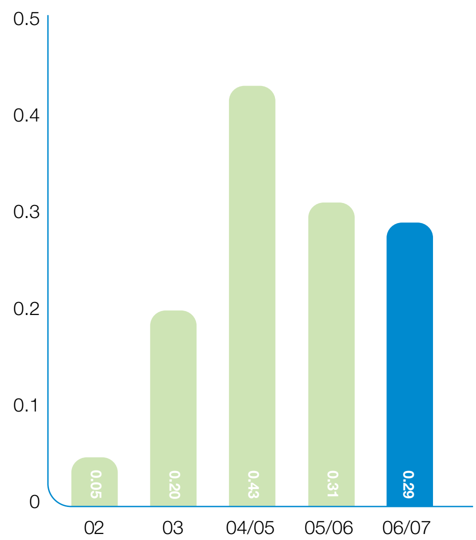
Hong Kong, 11 July 2007

For the year ended 31 March 2007

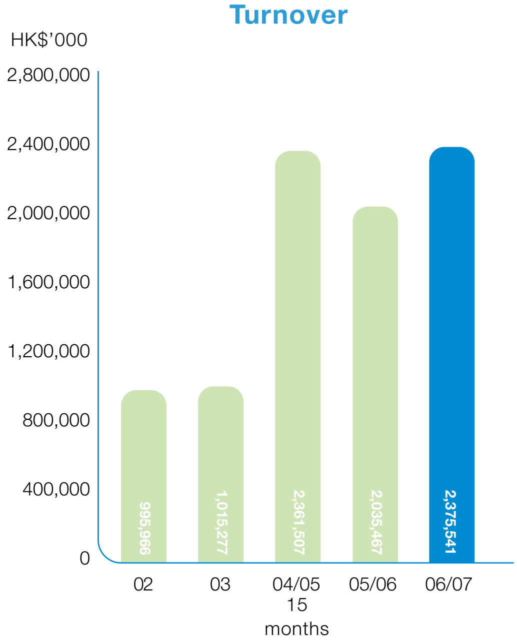
## Net Profit



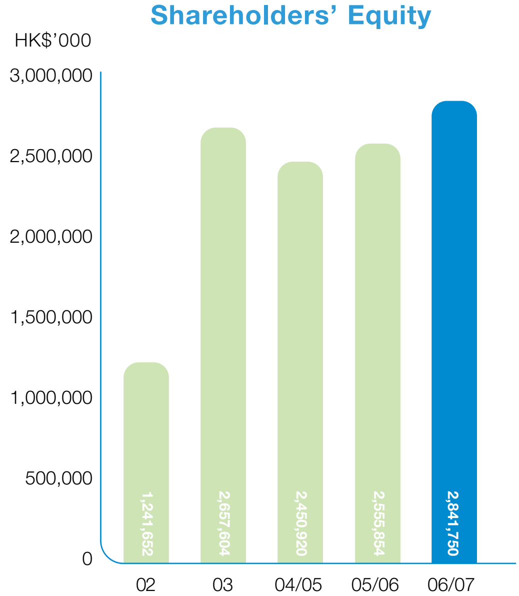

## Gearing Ratio




## Turnover




## Shareholders' Equity



# Milestones

## 2007

### APRIL 2007

- The Company subscribed for 3,150,000 preference shares in CCMG and exercised the right to convert the bridge loans and interests of US$6,899,441 into 3,104,749 preference shares. CCN has a customer base of over 2.5 million subscribers.

中广有线
CHINA CABLE

- Upon the invitation of Nikki Denso Co., Ltd, Beijing Stone Industrial Control Technology Co., Ltd organised a trip to Japan and visited that company and a server product exhibition, in which a number of renowned manufacturers in the industry have participated.

### MARCH 2007

- The establishment of Stone Resources Limited paves the way for the Group to make strategic move to enter into the mineral resources industry.
- As at the end of March 2007, Sunnet Café operated a total of 63 self-owned and franchised shops, located mainly in Guangzhou, Dongguan and Shenzhen.


- The introduction of SAP ERP projects in four subsidiaries of the Group, including Beijing Stone New Technology Industrial Co., Ltd, were commenced in full scale.
- Mr. SHI Yuzhu resigned as Chief Executive Officer of the Company with his post taken up concurrently by Mr. DUAN Yongji, Chairman of the Company. Mr. SHI remains an Executive Director of the Company and takes charge of the healthcare products business of the Group.

### JANUARY 2007

- Shanghai Jianjiu Biotech Co., Ltd., a subsidiary of the Company, subscribed for 18,173,915 A shares of legal person shares in China Railway Erju at RMB91,778,271.
- Naobaijin and GoldPartner were awarded "The Most Reliable Brand of Healthcare Products for Customers in 2006". (According to the survey of The Most Reliable Brand of Healthcare Products for Customers in 2006 conducted by Beijing Evening News.)


- Naobaijin was awarded "The Most Reliable Healthcare Product for the SMS Taobao Consumers of Nanfang Daily in 2006". (According to the survey of The Most Reliable Healthcare Product for the SMS Taobao Consumers of Nanfang Daily in 2006 conducted by Nanfang Daily Group.)

# 2006

- Naobaijin was awarded "the Best-Selling Healthcare Product in 2006" and GoldPartner was "the Best-Selling Vitamin Product in 2006". (According to the survey of The Most Powerful Brands in the consumer product industry conducted by the National Bureau of Statistics of China.)

- GPS Safe Driving Voice Notifier "Tanlu 303" was successfully launched in fifteen mega shopping malls in Beijing.

## DECEMBER 2006

- As announced in the Interim Report 2006-07, turnover increased to HK$929 million, indicating the effective turnaround resulted from the reorganisation of the electronic products business.

- Beijing Stone Industrial Control Technology Co., Ltd held a conference for Rockwell Automation's products in conjunction with Rockwell Automation China of USA.

- TCS business department was awarded "The Citrix Systems' Best Distributor in the Asia-Pacific region in 2006".

## OCTOBER 2006

- Repurchased an aggregate of 6,67 million shares of the Company at an average price of HK$0.421 per share. Share repurchase facilitated the increase of shareholders' value.

## JULY 2006

- Naobaijin emerged as "the Champion in the National Sales of Healthcare Products" for two consecutive years (According to the ranking on the list of the National Sales of Healthcare Products published by the National Bureau of Statistics of China).


- GPS Safe Driving Voice Notifier "Tanlu 303" produced by Beijing Me-to-You System Integration Limited was introduced to the market.

## MAY 2006

- Disposal of 20% equity interest each in Beijing Stone Intelligent Transportation System Integration Company Limited ("SITS") to the management and Beijing Me-to-You Information Technology Limited respectively strengthens the loyalty of the management towards the Company.


- Acquired further equity interest in Huaxu Golden Card Co., Ltd., which is primarily engaged in the development, production, promotion and application of intelligent card, hardware and software, at a total consideration of RMB16.08 million in May and November respectively. The total equity interest held by the Company increased to 44.41%.

# Management Discussion and Analysis

The Group's businesses are classified into two main categories: core operational business and investment business. Our core operational business primarily includes IT electronic and media related business ("IT business"), and healthcare products business. The IT business includes the manufacturing and distribution of electronic products and operation of an internet cafe chain. The products in healthcare business are Naobaijin, GoldPartner and Huang Jin Xue Kang. Investment business mainly includes the interests in SINA, CCMG and Cayman MTY.

With the efforts of all our staff throughout the year, the Group achieved good performance in both of its core operational business and investment business. For the year ended 31 March 2007, audited turnover amounted to HK$2,376 million was recorded, rose by 16.7% when compared to that of last year. Profit attributable to equity shareholders of the Company amounted to HK$134 million, also representing an increase of 110.2% from last year. During the year, the consolidated profit from operation was HK$102 million, representing a decrease of 7.0% as compared with last year, was due to the slight reduction of the price of healthcare products in order to position them in the functional market and also due to the effects from the introduction of the regulation in the advertisement of the healthcare business.

## BUSINESS REVIEW

### Core Businesses

Both of the IT business and healthcare products business recorded remarkable growth in sales during the year under operation. The sales and gross profit and their respective changes of these two principal businesses during the year by operation segments and product categories are as follows:

| | 2007 | | 2006 | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | Turnover | Gross Profit | Turnover | Gross Profit | Turnover | Gross Profit |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | % | % |
| IT business | | | | | | |
| Manufacturing of electronic products | 263,772 | 44,962 | 243,329 | 36,705 | 8.4 | 22.5 |
| Distribution of electronic products | 976,834 | 71,924 | 789,400 | 55,132 | 23.7 | 30.5 |
| Internet cafe chain | 5,906 | 4,148 | 6,080 | 3,036 | (2.9) | 36.6 |
| | 1,246,512 | 121,034 | 1,038,809 | 94,873 | 20.0 | 27.6 |
| Healthcare products business | 1,129,029 | 622,988 | 996,658 | 554,129 | 13.3 | 12.4 |
| | 2,375,541 | 744,022 | 2,035,467 | 649,002 | 16.7 | 14.6 |

## IT Business

During the period under review, the overall turnover of the IT business increased by 20.0% to HK$1,247 million as compared with the corresponding period last year, and representing 52.5% of the Group's total turnover. The contributions from manufacturing of electronic products, distribution of electronic products and internet cafe chain were 21.1%, 78.4% and 0.5% respectively. The overall gross profit was increased by 27.6% as compared with the corresponding period last year and the gross profit margin was 9.7%, representing an increase of 0.6 percentage points as compared with the corresponding period last year. Profits from operation of the IT business was merely HK$8.6 million as a result from the continuous rising distribution cost due to fierce competition in the market. However, such performance was a significant turnaround when compared with the operation loss of HK$30 million of the corresponding period last year.

### *Electronic Manufacturing*

The sales and gross profit of the Group's self-produced electronic products increased 8.4% and 22.5% respectively as compared with the corresponding period last year. The details are as follows:

| | **2007** | | 2006 | | **Increase/ (Decrease)** | **Increase/ (Decrease)** |
|---|---|---|---|---|---|---|
| | **Turnover** | **Gross Profit** | Turnover | Gross Profit | **Turnover** | **Gross Profit** |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 | **%** | **%** |
| Manufacturing of electronic products | | | | | | |
| Printers | **206,802** | **29,723** | 175,767 | 24,998 | 17.7 | 18.9 |
| Gold tax and tax control products | **32,874** | **17,617** | 23,663 | 11,991 | 38.9 | 46.9 |
| Others | **24,096** | **(2,378)** | 43,899 | (284) | (45.1) | N/A |
| | **263,772** | **44,962** | 243,329 | 36,705 | 8.4 | 22.5 |

The sales of Stone printer for the year were outstanding, especially when compared with other segments of the IT business. Its sales accounted for 78.4% of the turnover from the manufacturing of electronic products segment and 8.7% of the Group's total turnover. The sales amounted to HK$207 million, representing an increase of 17.7% as compared with the corresponding period last year. Gross profit margin remained stable as compared with the corresponding period last year. The remarkable performance was partly because of the rapid economic growth of China. It was also attributable to the outstanding quality of our dot matrix printers over that of our competitors as a result of our market research. The Group sold a total of 65,000 invoice printers during the year, which accounted for over 30% of the market share in the PRC's rural credit cooperatives and postal savings and remittance markets.

The sales of the Group's gold tax products in the year accounted for 12.5% of the turnover of the electronic product manufacturing segment and 1.4% of the Group's total turnover. Turnover amounted to HK$32.9 million, representing an increase of 38.9% as compared with the corresponding period last year. Gross profit margin also increased 2.9 percentage points. The increase in sales was mainly due to the upgrading of taxpayers' system from DOS to Windows version during the year as required by the Government. The sales of tax control machines remained unsatisfactory and the management may consider to dispose this business if no further progress will be made in the coming year in order to reduce the expense from the business without attractive return.

The electronic product manufacturing segment also includes certain projects and the manufacture of electronic ballasts for fluorescent light, the sales of which accounted for 9.1% of the turnover of the electronic manufacturing segment and 1.0% of the Group's total turnover. The turnover was HK$24.1 million, representing a fall of 45.1% as compared with the corresponding period last year. Gross loss increased by HK$2.1 million as compared with the corresponding period last year. The decrease in turnover was mainly attributable to the disposal of 40% equity interest in a subsidiary, of which the Group previously held 80%, to the management of that company and Beijing Me-to-You Information Technology Limited. After the disposal of equity interest, that company was reclassified from a subsidiary to an associate and its turnover ceased to be consolidated into the Group's financial statement. That company was primarily engaged in the manufacturing of large electronic traffic message boards and the design of road safety network system for the Beijing Traffic Management Bureau. The disposal of its equity interest was an incentive for the management of that company and promote the synergy effect between that company and Beijing Me-to-You Information Technology Limited.

***Electronic Products Distribution***

The electronic product distribution outperformed the electronic product manufacturing of the Group. Sales and gross profit increased 23.7% and 30.5% respectively as compared with the corresponding period last year. The details are as follows:

| | **2007** | | 2006 | | **Increase/ (Decrease)** | **Increase/ (Decrease)** |
|---|---|---|---|---|---|---|
| | **Turnover** | **Gross Profit** | Turnover | Gross Profit | **Turnover** | **Gross Profit** |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 | **%** | **%** |
| Electronic product distribution | | | | | | |
| Industrial controllers | **651,170** | **40,841** | 621,426 | 42,911 | 4.8 | (4.8) |
| UPS equipment | **81,099** | **3,980** | 72,628 | 2,010 | 11.7 | 98.0 |
| Digital graphic products | **8,425** | **2,598** | 10,715 | 2,315 | (21.4) | 12.2 |
| Computer parts and others | **114,565** | **6,973** | 22,005 | 845 | 420.6 | 725.2 |
| Others | **121,575** | **17,532** | 62,626 | 7,051 | 94.1 | 148.6 |
| | **976,834** | **71,924** | 789,400 | 55,132 | 23.7 | 30.5 |

Industrial controllers remained the largest sources of income of this business segment, which accounted for 66.7% of the turnover of the electronic distribution segment and 27.4% of the Group's total sales. The competition in this industry continued to be very keen in the year. In spite of our unrivaled leadership in the industry, the Group had been operating under the strong competition from the parallel dealers. Other than price reduction, the industrial controllers company also had to place purchase orders in advance so as to gain the support from its suppliers. Despite the blooming economy, the sales of industrial controllers products amounted to HK$651 million, only a slight increase of 4.8% as compared with the corresponding period last year. Gross profit margin was 6.3%, a drop of 0.6 percentage points as compared with last year. In order to beef up the sales and expand the sales channels, the industrial controllers company actively prepared to establish branches in various regions in the second half of the year on the basis of the sales systems established over the past few years, such as ERP system, stock management system, telephone ordering and enquiries services and quality after-sale services. As such, its competitiveness and the confidence of the customers towards our products and services will be enhanced, resulting in increased sales of the company.

Over the past few years, the Group has been the sole agent of the uninterrupted power supply ("UPS") products produced by Powerware in the PRC. The sales accounted for 8.3% of the turnover of the electronic distribution segment during the year, representing 3.4% of the Group's total sales. The sales amounted to HK$81 million, representing an increase of 11.7% as compared with the corresponding period last year. Gross profit margin rose 2.1 percentage points as compared with last year.

The integrated electronic products division decided to alter the sales mode in the coming year by acting as the agents of the products from various uninterrupted power supply companies instead of being the sole agent of Powerware due to the extremely narrow gross profit margin for selling products as a sole agent and the capital requirement is comparatively large. The sales mode will transform from passive to active by taking the initiative to approach customers.

Also included in the electronic distribution business is the distribution of digital graphic products. At the beginning of the year, digital graphic products division acted as the sole agent for Graphtec in the PRC, mainly selling peripherals such as fax machines, design cutter machines, engraving machines and 3D scanners. The division also formulated various solutions to be used with Graphtec's cutting machines, and promoted their use in transportation, apparel, stone, shoes-manufacturing industry and personal use. As the product was still with a brand name which is very new to the PRC, its sales only accounted for 0.9% of the turnover of the electronic distribution segment, representing 0.4% of the Group's total turnover. Its sales was only HK$8.4 million, representing a drop of 21.4% as compared with the corresponding period last year. Yet, the gross profit for the year rose 9.2 percentage points as compared with the corresponding period last year since the gross profit from the sale of the products was different from that of parts from Roland last year.

The electronic distribution business also covers the sales of semi-conductors and computer accessories, and manufacture of electrical lighting equipment, electrical peripheral, healthcare equipment, control system for automated doors and other electrical products. For the year ended 31 March 2007, the sales of these products accounted for 24.2% of the turnover of the electronic distribution segment, representing 9.9% of the Group's total turnover. The sales were HK$236 million, an increase of 179.0% as compared with the corresponding period last year. Gross profit margins amounted to approximately 10.4%.

***Internet Cafe Chain***

Due to a reduction in the number of self-owned shops and the rapid establishment of franchised shops, the turnover of the internet cafe chain operating in Guangzhou, Dongguan, and Shenzhen was only HK$5.9 million, representing a decrease of 2.9% as compared with the corresponding period last year. However, the number of franchised shops in operation showed a significant growth to 63 shops at the end of the year. Even though there were over 15,200 computer terminals available and had over 62,800 users per day, the internet cafe chain still recorded an operation loss of HK$2.8 million for the year, representing a drop of 50.9% from the operation loss of HK$5.7 million over the corresponding period last year, due to relatively high tax expenses and depreciation and amortisation charges from the decoration of self-owned shops. The confidence of the management of Sunnet Café was rebounded as Sunnet Café has recorded profit and started its stable operation since April 2007. The management further believes that after the change in the operation mode, new business opportunities can be found for Sunnet Café with to a scale of around 80 shops.

### Healthcare Products Business

For the year ended 31 March 2007, the turnover of healthcare products business amounted to HK$1,129 million, which was an increase of 13.3% as compared with the corresponding period last year, representing 47.5% of the total turnover of the Group. Gross profit margin dropped by 0.4 percentage points to 55.2% as compared with the corresponding period last year. The drop of gross profit was mainly due to the repackaging of GoldPartner and the slight reduction of its price in order to position the products in the functional market. In the Interim Report, it is explained that owing to the promulgation of the "Provisional Requirements on Review of Advertisement of Healthcare Food Product" by the PRC government in July 2005, together with the influence brought by market consolidation, the turnover of healthcare products business for the first half of the year was only HK$327 million, representing a drop of 15.1% as compared with the corresponding period last year. Hence, the management decided to improve our marketing strategies for the second half of the year by reinforcement of advertising on one hand, and enhancement of marketing and promotion activities on the other. With the dual effects of the above, as well as a nationalwide increase in residents' income in 2006, healthcare products of the Group recorded lucrative results during the Spring Festival of 2007, with the sales of Naobaijin close to the record high during the SARS period in 2003. Nevertheless, the growth in sales was partly offset by capital contribution in advertising expenses, increased salary for additional salesmen, and increased rental cost for prime positions in shopping malls and supermarkets. As a result, the overall sales expenses rose 14.9% as compared with the corresponding period last year. In addition, the growth in the management's remuneration and the rental cost for head office of our healthcare product business, as well as capital injection for research and development of new products all resulted in the decrease in operating profit for the healthcare products business during the year, which was approximately HK$118 million, representing a drop of 18.9% as compared with the corresponding period last year. Turnover and gross profit of the healthcare products business by category are detailed as follows:

| | **2007** | | 2006 | | **Increase/ (Decrease)** | **Increase/ (Decrease)** |
|---|---|---|---|---|---|---|
| | **Turnover** | **Gross Profit** | Turnover | Gross Profit | **Turnover** | **Gross Profit** |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 | % | % |
| Healthcare products business | | | | | | |
| Naobaijin | **699,827** | **332,543** | 618,639 | 289,965 | 13.1 | 14.7 |
| GoldPartner | **424,165** | **286,845** | 378,019 | 264,164 | 12.2 | 8.6 |
| Huang Jin Xue Kang | **5,037** | **3,600** | – | – | N/A | N/A |
| | **1,129,029** | **622,988** | 996,658 | 554,129 | 13.3 | 12.4 |

#### *Naobaijin*

As stated above, Naobaijin recorded satisfactory sales of HK$700 million during the year which accounted for 62.0% and 29.5% of the turnover of the healthcare products business segment and the total turnover of the Group respectively. The sales represented an increase of 13.1% as compared with the corresponding period last year. Gross profit margin amounted to approximately 47.5%, which contributed HK$333 million to the Group's gross profit. A healthcare product of 10-year sales history, Naobaijin marked yet another break-through in the healthcare food products industry for achieving such splendid results. In addition, Naobaijin has also become the champion of the National Sales of Healthcare Products in the PRC in 2006. This has been the sixth times out of the seven years in which the product won this award since 2000. 2007 marks the tenth year since the launch of Naobaijin to the market. The Group will carry out a series of celebrations which are believed to be a booster that will take the sales of Naobaijin to another level.

***GoldPartner***

In fact, GoldPartner was highly affected by the advertisement regulations promulgated by the PRC government. As GoldPartner's marketing strategy highlighted the efficacy of the products while the government's policy was directed at the statement on product efficacy in advertisement, the management had to strengthen its marketing strategies for the gift market. On the other hand, the management took new initiative for product packaging by replacing the paper boxes for regular packaging to plastic bottles in July and August last year. The price was also reduced to cater for consumers of GoldPartner as a vitamin supplement. The management's efforts were ultimately proven correct. During the year, the sales of GoldPartner amounted to HK$424 million, which accounted for 37.6% and 17.9% of the turnover of healthcare product business and the total turnover of the Group respectively. The sales also represented an increase of 12.2% as compared with the corresponding period last year. However, as the price of the new regular packaging is lower than the old version, the gross profit margin of GoldPartner dropped by 2.3 percentage points to 67.6%, contributing HK$287 million to the gross profit of the Group.

***Huang Jin Xue Kang***

During the year, the Group had introduced a new product namely Huang Jin Xue Kang, the efficacy of which is to reduce blood lipids. It was put on trial sales last year mainly in the cities of Anhui province but the result was insignificant. The aggregate sales in the past few months were only HK$5.0 million, with realised gross profit of HK$3.6 million.

### Investment Business

As stated above, the Group has been investing in new projects other than its core businesses for years in order to seek for high-yielded investments. In general speaking, while the Group's shareholding in these investments was comparatively low, certain investments has significant impacts to the Group's revenue and asset value. For easier management, these investments are classified as investment business.

SINA is one of the most successful investments of the Group's investment business. As at 31 March 2007, the Group held 2,502,274 shares in SINA amounting to approximately HK$657 million and representing approximately 4.6% of the issued shares of SINA. Compared with the market value at the end of last year, SINA contributed HK$116 million of unrealised gain to the Group during the year. HK$58.9 million was contributed to the equity attributable to shareholders after deduction to the minority interests.

In addition, the Group and certain investment partners invested in CCN through CCMG. CCN provides national-wide cable television network services and operates cable networks in 18 cities along the wealthy costal region. Being one of the largest cable television operators in the PRC, CCN has a customer base of over 2.5 million. At the end of the year, the Group held 34.77% interest in CCMG, while CCMG was in turn interested in 31.14% of CCN. The remaining 68.86% equity interest was held by SARFT Network Centre and other regional television stations of the PRC.

Other than the internet and cable television networks mentioned above, the Group was also interested in companies with operations related to mobile phone network services. Cayman MTY held the entire interest in Beijing MTY, which is primarily engaged in mobile communication and position information value-added services. Pursuant to the equity transfer contract dated March 2005, the Group acquired 40% interest in Cayman MTY and the vendor gave the Group a guarantee that the profit after tax for each of 2005 and 2006 of Cayman MTY would not be less than US$8.10 million. However, Cayman MTY could not achieve this goal in 2006 as part of its business had yet to be commenced despite the fact that it managed to keep its profit guarantee in 2005. Coupled with the new policy on mobile communication adopted by China Mobile and China Unicom, Cayman MTY recorded a loss in 2006. Upon discussion, the Board decided to file a claim against the vendor for indemnification, the Group's interest in Cayman MTY will be increased thereafter. This gave the Group the flexibility to decide whether it should increase its shareholding in that company. Although Cayman MTY's performance was unsatisfactory last year, a multi-national company was considering cooperating with Cayman MTY for the installation of vehicle navigation equipment as the business the company operates has excellent potential. Together with the fact that Beijing MTY was about to promote its "Tanlu 303" to all over China, the management of Cayman MTY is confident about the operation of Cayman MTY.

Besides the long-term investments stated above, the Group also participated in the initial public offers and placing activities by the new listings with the surplus funds. During the year, the Group was subscribed shares from the new listings including Bank of China, Industrial and Commercial Bank of China and China Merchant Bank. The Group applied to the board of China Railway Erju for subscription of its 18,173,915 A shares at the price of RMB5.05 each in January 2007, which had a lock-up period of one year. As at the balance sheet date of the Group, the market value of those shares was RMB11.8 each.

### Liquidity and Financial Position

As at year end, the current ratio and quick ratio of the Group were 4.0 and 3.63 respectively. Cash and cash equivalents held was HK$477 million. Total equity attributable to equity shareholders of the Company increased from HK$2,203 million at the beginning of the year to HK$2,393 million at year end, reflecting a healthy financial position of the Group.

At the end of the year, the Group's convertible notes amounted to HK$560 million, representing a decrease of HK$14 million comparing with the beginning of the year. This was primarily due to convertible notes with a par value of HK$30 million were converted into shares of the Company in last April. In addition, the convertible notes carry interest at annual interest rate of 4% and the accrued interest will be restated at amortised cost. According to accounting standards, all convertible notes issued are split into liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in other reserve until the notes are converted or redeemed.

Compared with the previous year, the HK$560 million convertible notes comprised par value of HK$217 million convertible notes with an interest rate of 3% at a conversion price of HK$0.52 per share and HK$374 million convertible notes at par value with nil interest at a conversion price of HK$0.76 per share.

In addition, the bank granted an extra of HK$5 million overdraft limit to a trading subsidiary of the Company upon its application during the year.

Due to the above-mentioned, the aggregated interest-bearing bank loan and other loans of the Group as at 31 March 2007 increased to HK$699 million, representing an increase of 0.9% compared with the beginning of the year. The ratio of net borrowings to total equity attributable to equity shareholders of the Company increased to 9.3%.

As at 31 March 2007, the Group has HK$173 million banking facilities available which consist of letter of credit facilities, overdraft and other standby credit. The Group had utilised approximately HK$139 million of its credit facilities. The Group believes that its internal fund and the existing banking facilities are able to meet its capital investment and working capital requirements for the next half year.

### Charges on Assets

As at 31 March 2007, a property with carrying value of approximately HK$29.4 million was pledged by the Group as collateral against the banking facilities, a term loan and bank overdrafts granted to the subsidiaries of the Group. In addition, part of SINA shares held by the Group had been pledged to a securities company against a margin loan of US$15 million granted to the Group.

### Contingent Liabilities

As at 31 March 2007, the Group had provided a guarantee of approximately HK$40,580,000 for bank loan granted to an associate.

### 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 as and when necessary.

### Human Resources

As at 31 March 2007, the Group had a total of 9,862 (2006: 8,451) employees, of which 9,834 (2006: 8,423) were employed in the PRC and 28 (2006: 28) were employed in Hong Kong. Out of the 9,834 employees in the PRC, 7,613 (2006: 5,986) 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

After the reorganisation activities conducted a year before last, our business was streamlined . As a result, the IT business was greatly improved during the year. In facing the keen market competition, the management will put extra efforts in gaining further market shares in order to make higher profits margin for the Group. Industrial controller ventures had enlarged its sales forces and established branch offices in the major areas in order to get close to our customers to understand their needs and enhance the quality of the after-sale services, attempting to outshine other competitors in terms of service quality. As for gold tax products, we will endeavor to leverage our advantages to involve in tax-related value-added services and explore new income sources by utilising existing resources of the Group, adjusting service contents and the way of provision and taking full advantage of resources of over 30,000 enterprises and over 70,000 individual users accumulated for years. Our computer software distribution department will seek to organise marketing activities with companies like Citrix and Altrius to enhance brand recognition, boost sales and gain higher profits in the coming year.

As for healthcare products business, the management will expand sales as well as implement effective cost controls to achieve growth in both sales and profits. The management will also continue its efforts on the trial sales of Huang Jin Xue Kang to find out the most suitable target markets for the product by gathering different market responses. We hope the product will gain the leading position in the market of blood-lipids lowering products as soon as possible and contribute considerable income to the Group. In addition, the Group will continue the research and development of new products, with the intention to put into market in the near future and raise earnings for the Group.

With regard to investment business, the Group entered into an agreement after the year end date with the investment partners of CCMG on bringing in new investors to additionally contribute capital of US$29,000,000 to CCMG. By increasing investment in CCN through CCMG, CCN has adequate capital to continually expand its cable TV network and strengthen customer base, which can accordingly drive up company value. Meanwhile, we will actively seek listing opportunities for the company. Despite the unsatisfactory results of Cayman MTY in 2006, the management believes that upon the successful launch of GPS Intelligent Navigators "Tanlu 303N" and orders received from major international customers, the results of the company will significantly improve which will create decent profits for the Group.

In particular, the management determined to strategically enter into the mineral resources industry. In mid June, the Company, Chairman of the Group and other independent third parties established Stone Resources with the Group contributing HK$10,000,000, representing 16.67% of equity interests. Stone Resources has been granted the exploration right by the local government of Yemen and is currently in the discussion of obtaining the same in other regions. According to an analysis published by the PRC government, among 40 categories of mineral products correlated with industry development, the consumption per capita of the PRC is all lower than half of that of the world. Therefore, the management believes that with rapid economic growth of the PRC, the demand for resources will be pressing, resulting in great opportunities in the mineral industry. To control investment risks of entering the industry, the management decides to make limited investment initially and only consider larger scale involvement after finding suitable mining areas and accumulating adequate experience and human resources so as to maximise returns for shareholders.

The directors of Stone Group Holdings Limited (the "Company") and its subsidiaries (the "Group") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2007 ("the Year").

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of its principal subsidiaries are set out in note 45 on the financial statements.

The Group's turnover is derived principally from the manufacturing, distribution and sale of healthcare products, electronic and electrical products, office equipment and the provision of related services, and the operation of media-related business.

The Group operates primarily in the People's Republic of China ("PRC") where its existing manufacturing facilities and distribution network are based. The Group's activities in Hong Kong include the sourcing of electronic and electrical products, office equipment and component parts for processing, distribution and sale in the PRC.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contributions from operations by business segments for the Year is set out in note 14 on the financial statements. No analysis of the Group's turnover and contributions from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the PRC.

## MAJOR CUSTOMERS AND SUPPLIERS

For the Year, the five largest customers in aggregate accounted for less than 30% of the Group's turnover. The five largest suppliers in aggregate and the largest supplier of the Group accounted for approximately 68% (year ended 31 March 2006: 65%) and 26% (year ended 31 March 2006: 28%) respectively by value of the Group's total purchases.

At no time during the Year have the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors of the Company owns more than 5% of the Company's share capital) had any interests in such major customers and suppliers.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year and the state of the Company's and the Group's affairs as at 31 March 2007 are set out in the financial statements on pages 43 to 122.

No interim dividend was paid during the Year (2006: Nil). The directors of the Company recommend the payment of a final dividend of HK1.3 cents per share for the Year (2006: HK0.8 cent) to the shareholders whose names appear on the register of members of the Company on 23 August 2007.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 32 on the financial statements.

## TRANSFER TO RESERVES

Profits attributable to equity shareholders of the Company HK$134,333,000 (2006: HK$63,908,000) have been transferred to reserves. Other movements in reserves are set out in note 33 on the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the Year are set out in note 16 on the financial statements.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2007 are set out in notes 27 and 28 on the financial statements.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 123.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in the sections entitled "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures", "Share Option Scheme" and "Substantial Shareholders' Interests or Short Positions in Shares and Underlying Shares" below and save for the particulars of convertible notes of the Group as at 31 March 2007 set out in note 30 on the financial statements, the Company had no other outstanding options, convertible securities, warrants or other similar rights as at 31 March 2007 and there were no other repurchases or exercises of options and convertible securities during the Year.

## DIRECTORS

The directors of the Company during the Year and up to the date of this report were:

### Executive directors

DUAN Yongji *(Chairman and Chief Executive Officer)*
SHI Yuzhu *(resigned as Chief Executive Officer in March 2007 but has still acted as Executive Director)*
SHEN Guojun
ZHANG Disheng
CHEN Xiaotao
LIU Wei

### Independent non-executive directors

NG Ming Wah, Charles
Andrew Y. YAN
LIU Ji
LIU Jipeng

In accordance with article 101 of the Company's articles of association, Messrs. DUAN Yongji, SHI Yuzhu, SHEN Guojun and NG Ming Wah, Charles retire by rotation from the board at the forthcoming annual general meeting and being eligible, offers themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## DIRECTORS' SERVICE CONTRACTS

Messrs DUAN Yongji and SHEN Guojun entered into service contracts with the Company, all of which are for a period of 3 years commencing on 23 July 1993 and will continue thereafter until terminated by either party to the agreements at 6 months' written notice. Mr. CHEN Xiaotao also entered into a service contract with the Company for a period of 2 years commencing on 1 June 2001 and will continue thereafter until terminated by either party to the agreement at no less than 2 months' written notice.

Messrs. NG Ming Wah, Charles, Andrew Y. YAN, LIU Ji and LIU Jipeng entered into service contracts with the Company, all of which are for a period of 3 years commencing on 25 August 2005, 26 June 2004, 20 May 2005 and 18 April 2006, respectively until terminated by either party to each of the agreements at 1 month written notice.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

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

The directors of the Company who held office at 31 March 2007 had the following interests or short positions in the shares, underlying shares and debentures of the Company or its 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 pursuant to Divisions 7 and 8 of Part XV of the SFO and or required to be notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set in Appendix 10 of the Listing Rules:

Interests in the shares and underlying shares of the Company:

| **Name of director** | **Nature of interests** | **Number of shares** | **Interest in underlying shares of equity derivatives of the Company pursuant to share option (being granted and remained outstanding)** | **Interest in underlying shares of equity derivatives of the Company pursuant to convertible notes** | **Aggregate interests** | **Approximate shareholding** (Note 3) |
|---|---|---|---|---|---|---|
| DUAN Yongji | Personal (Note 1) | 45,075,538 | 3,900,000 | 182,692,305 | 231,667,843 (L) | 14.85 |
| SHEN Guojun | Personal (Note 1) | – | 4,000,000 | – | 4,000,000 (L) | 0.25 |
| CHEN Xiaotao | Personal (Note 1) | – | 8,000,000 | – | 8,000,000 (L) | 0.51 |
| ZHANG Disheng | Personal (Note 1) | – | 10,400,000 | – | 10,400,000 (L) | 0.66 |
| SHI Yuzhu | Corporate (Note 2) | – | – | 492,105,264 | 492,105,264 (L) | 31.54 |
| NG Ming Wah, Charles | Personal | 1,000,000 | – | – | 1,000,000 (L) | 0.064 |

L denotes Long Position

## DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Notes: (1) Beijing Stone Investment Company Limited together with its associates (as defined in the Listing Rules) holds a total of 407,110,053 shares in the Company. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development (Holdings) Company Limited, 6.7% by Stone Group Corporation ("SGC") and 51% by Beijing Stone Investment Company Limited Employees' Shareholding 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, CHEN Xiaotao, SHEN Guojun 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 asset 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$95 million which are convertible into shares at the conversion price of HK$0.52 per share.

(2) The interest in the convertible notes in the aggregate principal sum of HK$374 million being convertible into shares at the conversion price of HK$0.76 per share which are in turn 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 shares held by Ready Finance.

(3) The number of issued ordinary shares of the Company as at 31 March 2007 ("31 March 2007 Issued Share Capital") is 1,559,930,196 and is applied to calculate the relevant percentage.

Save as disclosed herein and in the section entitled "Convertible Securities, Options, Warrants or Similar Rights" and in the sections entitled "Share Option Scheme" and "Substantial Shareholders' Interests or Short Positions in Shares and Underlying Shares" 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 and the Stock Exchange pursuant to the SFO or 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.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the Year or at any time during the Year.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme on 12 April 2002 ("the Scheme"). The purpose of the Scheme is to encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Company attained through their effort and contribution. Participants include any employee and director of the Company or any of its subsidiaries or associates as absolutely determined by the directors of the Company.

The directors of the Company may, at their discretion, invite any participant to take up options. An option is deemed to have been accepted by the grantee upon his or her signing the duplicate letter comprising acceptance of the option and paying HK$1 by way of consideration for the grant thereof.

## SHARE OPTION SCHEME *(Continued)*

The subscription price for shares in the Company under the Scheme will be the highest of (i) the closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date on which the option is offered, which date must be a business day, (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the option is offered, and (iii) the nominal value of a share of the Company.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. The Company may seek approval of the shareholders in general meeting to renew the said 10% limit such that the total number of shares in respect of options that may be granted under the Scheme or any other share option schemes of the Company shall not exceed 10% of the total number of shares of the Company in issue as at the date of approval to renew the limit. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share options schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue from time to time.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised or outstanding options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue. Any further grant of options in excess of the said 1% limit shall be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting. An option may be exercised during a period to be determined by the directors in its absolute discretion and in any event such period shall not be longer than 10 years after the date of the grant of the option. The Scheme will remain in force for a period of 10 years from 12 April 2002.

On 2 November 2006, it was conditionally approved by the Board at its meeting to change the exercise period from 10 years to 5 years which mentioned in the Share Option Scheme and that the revised Share Option Scheme was adopted by the Board in its meeting dated 22 January 2007.

The total number of shares available for issue under the Scheme as at 31 March 2007 was 158,212,000 shares, which represented 10.14% of the issued share capital of the Company at 31 March 2007.

## SHARE OPTION SCHEME *(Continued)*

At 31 March 2007, the directors and employees of the Group had the following interests in options to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share:

| Name | Number of options: Outstanding at 1.4.2006 | Exercised during the Year | Lapsed During the Year | Outstanding at 31.3.2007 | Date of grant | Exercisable period | Exercise price HK$ | % of the total issued (Note f) |
|---|---|---|---|---|---|---|---|---|
| DUAN Yongji | 3,900,000 (Note a) | – | – | 3,900,000 | 22-05-2002 | 22-08-2002 to 21-05-2007 | 0.792 | 0.25 |
| SHEN Guojun | 4,000,000 (Note a) | – | – | 4,000,000 | 22-05-2002 | 22-08-2002 to 21-05-2007 | 0.792 | 0.25 |
| CHEN Xiaotao | 8,000,000 (Note b) | – | – | 8,000,000 | 22-05-2002 | 22-05-2002 to 21-05-2007 | 0.792 | 0.51 |
| ZHANG Disheng | 10,400,000 (Note c) | – | – | 10,400,000 | 22-05-2002 | 22-05-2002 to 21-05-2007 | 0.792 | 0.66 |
| Contracted employees | 55,156,000 (Note d) | – | 7,100,000 | 48,056,000 | 22-05-2002 | 22-05-2002 to 21-05-2007 | 0.792 | 3.08 |
| Contracted employees | 6,000,000 (Note a) | – | 6,000,000 | – | 22-05-2002 | 22-08-2002 to 21-05-2007 | 0.792 | – |
| Contracted employees | 103,856,000 (Note e) | – | 20,000,000 | 83,856,000 | 31-12-2002 | 31-12-2002 to 30-12-2007 | 0.476 | 5.37 |

Notes:

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

(i) Not more than 25% of options granted exercisable from 22-08-2002 to 21-08-2003;

(ii) Not more than 50% of options granted exercisable from 22-08-2003 to 21-08-2004;

(iii) Not more than 75% of options granted exercisable from 22-08-2004 to 21-08-2005; and

(iv) Free to exercise from 22-08-2005 to 21-05-2007

## SHARE OPTION SCHEME *(Continued)*

(b) Free to exercise 4,000,000 options from 22-05-2002 to 21-05-2007 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 21-05-2007 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 21-05-2007 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 30-12-2007.

(f) During the Year, a total 33,100,000 options were lapsed following the resignation of the contracted employees.

(g) 31 March 2007 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.

No options were granted or exercised during the Year.

Save as disclosed above and in the section entitled “Directors’ Interests or Short Positions in Shares, Underlying Shares and Debenture” and “Substantial Shareholders’ Interests or Short Positions in Shares and Underlying Shares”, at no time during the year 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.

## MANAGEMENT CONTRACTS

Pursuant to an agreement dated 24 September 2003 between the Company and SGC, the latter agreed to provide, inter alia, secretarial and other related services and the use of office equipment to the Group for a term of five years commencing from 23 July 2003 at reimbursement costs which shall not exceed HK$3,500,000 per annum. Details of the aforesaid agreement are also disclosed in the section entitled “Connected Transactions” below.

Save as disclosed in the section entitled “Connected Transactions” below and other related party transactions during the year as set out in note 39 on the financial statements, no contracts of significance were entered into or subsisted between the Company or its subsidiaries and the Company’s controlling shareholders or its subsidiaries during the Year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 March 2007, to the best knowledge of the directors of the Company, the following parties who have interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO:

Interests in the shares and underlying shares of the Company:

| Name | Nature of interest | Interest in shares | Interest in underlying shares of equity derivatives of the Company pursuant to share options (being granted and remained outstanding) | Interest in underlying shares of equity derivatives of the Company pursuant to the convertible notes | Aggregate Interests | Approximate shareholding percentage (Note 6) |
|---|---|---|---|---|---|---|
| Beijing Stone Investment Company Limited | Corporate (Note 1) | 407,110,053 | – | – | 407,110,053 (L) | 26.09 |
| Beijing Stone Investment Company Limited Employees' Shareholding Society | Corporate (Note 2) | 407,110,053 | – | – | 407,110,053 (L) | 26.09 |
| Stone Jiu Guang New Technology Development (Holdings) Co. Ltd. | Corporate (Note 2) | 407,110,053 | – | – | 407,110,053 (L) | 26.09 |
| Shenyang Heguang Group Co. Ltd. | Corporate (Note 2) | 407,110,053 | – | – | 407,110,053 (L) | 26.09 |
| SGC | Corporate (Note 2) | 500,546,466 | – | – | 500,546,466 (L) | 32.08 |
| 深圳發展銀行深圳人民橋支行 | Corporate (Note 3) | 230,000,000 | – | – | 230,000,000 (L) | 14.74 |
| Ready Finance | Corporate (Note 4) | – | – | 492,105,264 | 492,105,264 (L) | 31.54 |
| DUAN Yongji | Personal (Note 5) | 45,075,538 | 3,900,000 | 182,692,305 | 231,667,843 (L) | 14.85 |
| SHI Yuzhu | Corporate (Note 4) | – | – | 492,105,264 | 492,105,264 (L) | 31.54 |
| Wise Expand Developments Limited | Corporate (Note 6) | 92,374,413 | – | – | 92,374,413 (L) | 5.92 |

L denotes Long Position

## SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. The shareholding of 407,110,053 shares comprised the combined shareholdings of Beijing Stone Investment Company Limited and its associates (as defined in the Listing Rules).

2. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development (Holdings) Co. Ltd., 6.7% by SGC and 51% by Beijing Stone Investment Company Limited Employees' Shareholding Society which are accordingly deemed to be interested in the said 407,110,053 shares. Stone Jiu Guang New Technology Development (Holdings) Co. Ltd. is owned as to 56.14% by Shenyang Heguang Group Co. Ltd. which is accordingly also deemed to be interested in the said 407,110,053 shares. In addition, SGC also beneficially held 92,374,413 shares indirectly (through Wise Expand Developments Limited) and 1,062,000 shares directly.

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

4. The interest of Ready Finance Limited is held by it as beneficial owner. Please also refer to Note 2 on page 24.

5. The interest of DUAN Yongji is held by him as beneficial owner. Please also refer to Note 1 on page 24.

6. Wise Expand Developments Limited is a limited company incorporated in Hong Kong and beneficially owned by SGC.

7. 31 March 2007 Issued Share Capital is applied to calculate the relevant percentage.

Saved as disclosed above, the Company has not been notified of any other interests or short positions in the shares and the underlying shares of the Company as recorded in the register of substantial shareholders maintained under section 336 of the SFO as at 31 March 2007.

## CONNECTED TRANSACTIONS

(a) On 10 March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") ( a subsidiary of the Company) and SGC, a controlling shareholder of the Company, entered into an agreement (the "I/E Agreement"), pursuant to which Beijing New Technology appointed SGC to act as its agent to deal with all import procedural matters during the year 1999. Details of the I/E Agreement are set out below and have been published in the Company's announcement dated 17 December 1999:

| | |
|---|---|
| Services to be provided: | Arrangement for shipment of goods from Hong Kong to the PRC and for remittance of the price of the goods to Hong Kong for Beijing New Technology by Stone Group Corporation Import and Export Company ("Stone I/E") as directed by SGC |
| Term: | for the year 1999 and renewable on annual basis thereafter |
| Handling fee: | 1.3% of the costs of goods for every shipment of goods arranged by Stone I/E provided that the annual aggregate handling fee shall not exceed HK$5,000,000, or 3% of the net tangible assets of the Company as shown in its latest published audited consolidated financial statements. |

## CONNECTED TRANSACTIONS *(Continued)*

(b) On 24 September 2003, SGC and the Company entered into a service agreement (the "Service Agreement"), pursuant to which SGC agreed to provide the Group with general services as directed by the board of directors of the Company from time to time in connection with the business and operations of the Group. Details of the Service Agreement are set out below and have published in the Company's announcement dated 10 December 2003:

| | |
|---|---|
| Services to be provided: | provision of management staffing services for the overall management, administration and control of the business of the Group; provision of the company secretarial services; dispatch of documents and materials as the Company may request for distribution to its shareholders and/ or warrantholders and related preparations and arrangements; provision of office machines, facilities and equipment; and provision of public relation services (collectively, the "Services") |
| Purpose of the transaction: | more economical and cost-effective for the Group to engage SGC to perform the Services |
| Term: | 5 years commencing from 23 July 2003 and expiring on 22 July 2008 (both days inclusive) |
| Service Fee: | on reimbursement basis of not more than HK$3,500,000 per annum |

(c) On 30 May 2006, Beijing Stone Technology Industrial Company Limited ("the Vendor"), a wholly-owned subsidiary of the Company, Mr. Guan Jizhen ("Mr. Guan") and Beijing Me-to-You Information Technology Limited entered into the Sale and Purchase Agreement pursuant to which the Vendor agreed to sell to Mr. Guan 20% equity interest in SITS at a consideration of approximately HK$1,932,367 and agreed to sell to Beijing Me-to-You Information Technology Limited 20% equity interest in SITS at a consideration of approximately HK$1,932,367.

Mr. Guan is a director and a substantial shareholder of SITS holding 20% equity interest in SITS and therefore Mr. Guan is a connected person of the Company. The transaction contemplated by the Sale and Purchase Agreement constitutes a non-exempt connected transaction for the Company which is only subject to the reporting and announcement requirements under the Listing Rules but is exempt from independent shareholders' approval requirements under the Listing Rules. Details of the Sale and Purchase Agreement were disclosed in the announcement of the Company dated 29 June 2006.

Other material related party transactions entered by the Group during the Year are set out in note 39 on the financial statements.

## ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The transactions contemplated under the I/E Agreement and the Service Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The independent non-executive directors of the Company had reviewed the transactions contemplated under the I/E Agreement and the Service Agreement for the Year (collectively, the "Transactions") and confirmed that the Transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with the terms of each of the I/E Agreement and the Service Agreement that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had reviewed the Transactions and reported that:

(a) the directors of the Company have approved the Transactions;

(b) the Transactions have been entered into in accordance with the terms of each of the I/E Agreement and the Service Agreement; and

(c) the Transactions have not exceed the annual caps as disclosed in the subsections (a) and (b) of the section entitled "Connected Transactions" above.

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

During the Year, certain shares in the Company were repurchased by the Company on the Stock Exchange and those shares were subsequently cancelled by the Company. Details of the share repurchases are set out in note 32 on the financial statements.

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

## PROPERTIES

Particulars of the major properties and property interests of the Group are shown on page 124 of the annual report.

## RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 13 on the financial statements.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## REVIEW BY AUDIT COMMITTEE

The audit committee of the Company comprises four independent non-executive directors, namely, Messrs. NG Ming Wah, Charles, Andrew Y. YAN, LIU Ji and LIU Jipeng. The audit committee has reviewed the audited financial statements for the Year and has also discussed auditing, internal control and financial reporting matters including the review of accounting practices and principles by the Group.

## AUDITORS

The financial statements have been audited by Messrs. KPMG who retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Messrs. KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

There is no change in auditors of the Company in the past 3 years.

## POST BALANCE SHEET EVENTS

Details are set out in note 40 on the financial statements.

On behalf of the Board
**DUAN Yongji**
*Chairman*

Hong Kong, 11 July 2007

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. DUAN Yongji**, aged 61, appointed in March 1992, is the Chairman and the Chief Executive Officer of Stone Group Holding Limited and the Chairman of Stone Group Corporation. Mr. DUAN graduated from Tsinghua University and was a research student at Beijing Aeronautic College. He held a senior position at Chinese Aeronautical Research 621 Laboratory from 1982 until 1984. In 1995, Mr. DUAN was acclaimed "Beijing Electronics Industry Outstanding Entrepreneur". In 1996, Mr. DUAN was acclaimed "The Top 20 Outstanding Managers" in Industrial System, Beijing. In 2000, Mr. DUAN was acclaimed "2000 Bauhinia Cup Outstanding Entrepreneur Awards". Mr. DUAN is also the director of Beijing Centergate Technologies (Holding) Co., Ltd., a company listed on Shenzhen Stock Exchange and the director of SINA Corporation, a company listed on NASDAQ, United States of America.

**Mr. SHI Yuzhu**, aged 44, appointed in August 2004, is the Executive Director of the Company. On 1 March 2007, Mr. SHI resigned as Chief Executive Officer and but has still acted as the Executive Director of the Company. Mr. SHI graduated from Zhejiang University in 1984 with a Bachelor degree in Mathematics. He was also a research student from Shenzhen University in Software Science in 1989. Mr. SHI began his career in 1989 by engaging in software development, and later established Giant Group. In 1993, he was commended as an Outstanding Scientific Entrepreneur of Guangdong Province. In 1994, Mr. SHI was elected as one of the China's Top 10 Reform Celebrities. In late 1997, he embarked on a new business venture with the development of Naobaijin, a technologically-advanced healthcare product. Naobaijin won the championship of nationwide sales of healthcare products in China for 4 consecutive years starting from 2000. In 2001, Mr. SHI was honored as one of the CCTV Chinese Economic Leaders and the Top 10 Chinese Financial Figures. He launched another innovative healthcare product GoldPartner in 2002. In 2004, GoldPartner and Naobaijin were ranked No. 1 and No. 2 on the list for nationwide sales of healthcare products. He was recognized as an Outstanding Scientific Entrepreneur for Private Entities in China and received the Bauhinia Cup Awards for Outstanding Entrepreneur. Mr. SHI is also the director of China Minsheng Banking Corp., Ltd., a company listed on Shanghai Stock Exchange.

**Mr. SHEN Guojun**, aged 72, appointed in December 1992, is the Executive Director of the Company. He is also the Chairman of Beijing Stone Investment Company Limited ("Stone Investment"). Mr. SHEN graduated from Beijing University where he held a teaching post until 1965. During the period between 1965 and 1984, Mr. SHEN had several senior positions in National Science Research Ninth Council and Chinese Science College Science Technology Office.

**Mr. ZHANG Disheng**, aged 52, appointed in May 2003, is the Executive Director of the Company and the President of Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology"), a subsidiary of the Group, and is also the President of Stone Investment. Mr. ZHANG graduated from Beijing Economics College and obtained a Master degree from Ryulsu Kaizai University, Japan. Mr. ZHANG held a senior position in Beijing Economics College Economic Technology Development Company prior to joining the Group. Mr. ZHANG is responsible for the business management of the Group.

**Mr. CHEN Xiaotao**, aged 49, appointed in May 2001, is the Executive Director of the Company. Mr. CHEN was the President and Chief Operating Officer of the Company from May 2001 to December 2004. Mr. CHEN is responsible for the investment in media-related business of the Group. He is also a director of SINA Corporation, a company listed on NASDAQ, United States of America.

**Ms. LIU Wei**, aged 39, appointed in March 2004, is the Executive Director of the Company and the General Manager of Shanghai GoldPartner Biotech Co., Ltd., a subsidiary of the Group. Ms. LIU was the General Manager of Shanghai Giant Biotech Co., Ltd. prior to joining the Group.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. NG Ming Wah, Charles**, aged 57, appointed in September 2004, is an Independent Non-Executive Director of the Company and has since acted as the chairman of the audit committee. Mr. NG graduated from Loughborough University in England in 1972 with a Bachelor of Science degree in Electrical and Electronic Engineering and from the London Graduate School of Business Studies (London Business School) in England in 1974 with a Master of Science degree in Business Studies. He is the managing director of Equitas Capital Limited, the business of which is the provision of strategic corporate financial advisory services, and has over 26 years of experience in corporate finance and investment banking. Mr. NG is a non-executive director of Goldlion Holdings Limited (stock code: 533); and an independent non-executive director of each of China Everbright Limited (stock code: 165), Dalian Port (PDA) Company Limited (stock code: 2880) and China Molybdenum Co., Ltd. (Hong Kong Stock Code : 3993). In addition, Mr. NG holds a number of community service positions, including as a member of the Council of Lingnan University of Hong Kong and a member of the Board of Governors of the Hong Kong Arts Centre.

**Mr. Andrew Y. YAN**, aged 50, appointed in June 2001, is an Independent Non-Executive Director of the Company. He is the Managing Partner of SB Asia Investment Fund II and Softbank Asia Infrastructure Fund (SAIF). Mr. YAN received a Master degree in Sociology and Economics from Beijing University in 1986 and a second Master's degree from Princeton University in the United States in 1989. He obtained his Bachelor degree in Engineering from the Nanjing Aeronautic Institute in the PRC. Mr. YAN was the managing director and head of the Hong Kong office of the Emerging Markets Partnership from 1995 until 2001. From 1994 to 1995, Mr. YAN worked at Sprint International Corporation as the director of Strategic Planning and Business Development for the Asia Pacific Region. Under Mr. YAN's leadership, SAIF's investment in Shanda Interactive Entertainment (SNDA) has been named "the Investment of the Year" by China Venture Capital Industry in 2003. SAIF was voted as "VC Firm of the Year" and Mr. YAN was elected as "Venture Capitalist of the Year" in 2004 by Chinese Venture Capital Association. Mr. YAN is currently a governor of the Chinese Venture Capital Association' an independent director of Eastern Communications Co., Ltd. and is an Independent Non-Executive Director of China Oilfield Services Ltd.

**Mr. LIU Ji**, aged 71, appointed in May 2005, is an Independent Non-Executive Director of the Company. He graduated from Tsinghua University, Beijing. He is now the research fellow and member of Academic Board of Chinese Academy of Social Sciences and the honorable chairman of China Europe International Business School. He also acted as the president of Shanghai Academy of Management Sciences, the chairman of China Mobile Communications Association, etc. He is currently the Independent Non-Executive Director of First Shanghai Investments Limited.

**Mr. LIU Jipeng**, aged 51, appointed in April 2006, is an Independent Non-Executive Director of the Company. He graduated from the Industrial Economic Department of the Graduate School of Chinese Academy of Social Sciences with a Master degree in Economics. Mr. LIU is a supervisor and a professor of Corporate Research Institute of Capital Economic and Trade University, and a mentor of the graduate students of the Research Institute for Fiscal Science, the Ministry of Finance of the PRC. He has acted as a consultant of the municipal government of each of Tianjin, Chengdu and Nanning, and the former State Power Corporation. He was also a member of the legal expert group for the PRC enterprises to be listed in Hong Kong and a committee member of the 7th – 8th of All-China Youth Federation. He was an expert member of the Amendment Committee for Securities Law under the National People's Congress ("NPC"). He is now a member of the Drafting Committees of NPC for State-owned Assets Law and Futures Transaction Law respectively. Mr. LIU is specialized in implementing the theories of demutualization, group engineering and internationalization in sized corporations. He is a well-known expert the theories of demutualization, group engineering and internationalization in size corporations. He is a well-known expert in demutualization and solving company problems. In the past ten years, he acted as a leader in almost 200 shareholding structure, listing and management consultancy projects for different kind of enterprises. Since August 2004, Mr. LIU has been an Independent Non-Executive Director of Huaneng Power International, Inc, a company listed in Hong Kong, the PRC and the United States.

## SENIOR MANAGEMENT

**Ms. ZHU Yanlan**, aged 49, is the Chief Financial Officer of the Company. Ms. ZHU received her Bachelor degree and Master degree of Arts in Beijing University. In 1989, she obtained another Master degree in International Politics in University of Chicago. In 1994, Ms. ZHU further obtained a Doctor of Philosophy degree in International Political Economy in University of Chicago. Ms. ZHU held several senior management positions in China Everbright International Trust and Investment Company, Everbright International Investment Consultancy Company, China Everbright Group, China Everbright International Limited (a company listed on the Stock Exchange) and Beijing Centergate Technologies (Holding) Company Limited (a company listed in mainland China), prior to joining the Group. Ms. ZHU is responsible for the legal, financial and accounting, and investors and public relations matters of the Group.

**Mr. LIU Yong**, aged 56, is the Vice President of Beijing New Technology and Stone Investment. Mr. LIU graduated from Shaanxi Engineering College and held a senior position in Wuhan Engineering Research Centre prior to joining the Group. Mr. LIU is responsible for printer business of the Group.

**Mr. LU Fang**, aged 49, is the Vice President of Beijing New Technology and Stone Investment, Mr. LU graduated from Aeronautic and Aerospace University of Beijing. Mr. LU held a senior position in 北京航空材料研究所 (Beijing Aeronautical Materials Research Laboratory) prior to joining the Group. Mr. LU is responsible for the electronic commercial product business of the Group.

**Mr. PAN Qi**, aged 48, is the Vice President of Beijing New Technology and Stone Investment. Mr. PAN graduated from Postal and Telecommunication University of Beijing. Mr. PAN held a senior position in an electronic instrument plant in Beijing prior to joining the Group. Mr. PAN is responsible for industrial controllers business of the Group.

# Corporate Governance Report

Stone Group Holdings Limited and its subsidiaries are committed to maintaining a high level of corporate governance. The board of directors of the Company (the "Board") believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Following the issue of the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (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 year ended 31 March 2007, except for the requirement that the roles of chairman of the Board and Chief Executive Officer of the Company ("CEO") 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.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code for securities transactions by the Directors. The Company has made specific enquiry of all Directors and has received a written confirmation from each Director confirming that he/she has complied with the Model Code for the year ended 31 March 2007 in relation to his/her securities dealings, if any.

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

## CORPORATE GOVERNANCE STRUCTURE

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

## BOARD OF DIRECTORS

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

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

A written confirmation was received from each of the INEDs, namely, Messrs. NG Ming Wah, Charles ("Mr. NG"), Andrew Y. YAN ("Mr. YAN"), LIU Ji and LIU Jipeng, confirming their independence pursuant to Rule 3.13 of the Listing Rules.

For the year ended 31 March 2007, other than resolutions passed by means of resolutions in writing of all Directors, eight (8) full Board meetings were held. Notice of at least 14 days is usually given of a regular Board meeting to give all Directors an opportunity to attend, otherwise, consent to short notice will be obtained from all directors. The following table shows the attendance records of individual Directors at the full Board meetings and the attendance records of individual members at the meetings of the Audit and the Remuneration and the Investment Committees held for the year ended 31 March 2007 respectively:

| | Number of meetings attended/ Number of meetings held for the year ended 31 March 2007 | | | |
|---|---|---|---|---|
| **Designation and Name** | **Full Board** | **Audit Committee** | **Remuneration Committee** | **Investment Committee** |
| **Executive Director and Chairman and Chief Executive Officer** | | | | |
| DUAN Yongji | 8/8 | N/A* | N/A* | 3/3 |
| **Executive Directors** | | | | |
| SHI Yuzhu | 5/8 | N/A* | N/A* | 3/3 |
| SHEN Guojun | 8/8 | N/A* | N/A* | N/A* |
| ZHANG Disheng | 6/8 | N/A* | 1/1 | 3/3 |
| CHEN Xiaotao | 8/8 | N/A* | N/A* | 3/3 |
| LIU Wei | 7/8 | N/A* | 1/1 | N/A* |
| **Independent Non-executive Directors** | | | | |
| NG Ming Wah, Charles | 8/8 | 3/3 | 1/1 | N/A* |
| Andrew Y. YAN | 5/8 | 1/3 | 1/1 | 2/3 |
| LIU Ji | 7/8 | 1/3 | 0/1 | N/A* |
| LIU Jipeng | 6/8 | 3/3 | N/A* | N/A* |

* "N/A": Not applicable

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

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman of the Board and the CEO of the Company are assumed by Mr. DUAN. On 1 March, 2007, Mr. SHI Yuzhu ("Mr. SHI") resigned as CEO of the Company due to his commitment to his own investment businesses kept on increasing and he foresaw that he would not be able to allocate sufficient time to take care of all of the Company's affairs. Mr. SHI considered the resignation is a more proper arrangement to avoid any unfavourable impact to the future growth of the Company's overall businesses. Mr. SHI will still act as an Executive Director and focus his time to the healthcare products business of the Company. Concurrently, the Board, having considered that the non-segregation would not result in concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementating decisions quickly and consistently, Mr. DUAN's management experience in, and his extensive knowledge of, the Group, unanimously agreed to appoint him to act as CEO of the Company with effect from the same date.

The primary role of the Chairman of the Board is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. The CEO is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing and have been approved by the Board. As mentioned above, the roles of Chairman and the CEO have been performed by Mr. DUAN, pending the finding of suitable candidate for the position of CEO by the Board and when the Board thinks appropriate, the above roles will be separately discharged by different persons in the future.

## BOARD COMMITTEES

The Board has established Board committees, namely Audit Committee, Remuneration Committee and Investment Committee to oversee particular aspects of the Company's affairs and to assist in sharing the Board's responsibilities. The Board has reserved for its decision or consideration on matters covering corporate strategy, annual and interim results, changes of members of the Board and its committees, major acquisitions, disposals and capital transaction, and other significant operational and financial matters. All the Board committees have clear written terms of reference and have to report to the Board regularly on their decisions and recommendations. The day-to-day running of the Company, including implementation of the strategies and plans adopted by the Board and its committees, is delegated to the management with divisional heads responsible for different aspects of the business.

### A. Audit Committee

The Audit Committee currently comprises Mr. NG, Mr. YAN, Mr. LIU Ji and Mr. LIU Jipeng, who are all INEDs. Mr. NG is the Chairman of the Audit Committee. In line with its terms of reference approved by the Board, the Audit Committee is principally responsible for, inter alia, providing independent review of the effectiveness of the financial reporting procedures and the internal control system of the Group; reviewing the appointment of independent auditors and the efficiency and quality of their work.

The major tasks accomplished by the Audit Committee for the year ended 31 March 2007 are as follows:

a. reviewed and submitted the consolidated financial statements of the Group for the year ended 31 March 2006 and the auditors' report thereon to the Board;

b. reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 September 2006 based on the review conducted by the Group's external auditors in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants, as well as obtaining reports from the management of the Group;

c. reviewed the management recommendations furnished by the external auditors and the responses from the Group's management;

d. reviewed the accounting principles and practices adopted by the Group;

e. assisted the Board in conducting independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control system; and

f. furnished its opinion to the management of the Group concerning related risks in respect of significant matters of the Group.

### B. Remuneration Committee

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

The Remuneration Committee currently comprises Mr. YAN, Mr. NG, Mr. LIU Ji, Mr. ZHANG Disheng and Ms. LIU Wei. Mr. YAN is the Chairman of the Remuneration Committee.

During the year ended 31 March 2007, the Remuneration Committee reviewed and discussed the level and package of the remuneration of Executive Directors and members of senior management as well as the proposal on the level of remuneration. The emoluments of the Directors are based on their respective responsibilities and their involvement in the Group's affairs and are determined by reference to the Group's business condition and the prevailing market practice.

### C. Investment Committee

In line with its terms of reference approved by the Board, the Investment Committee is principally responsible for perusing all the investment projects of the Group and to approve the projects with investment amount under HK$30 million.

The Investment Committee currently comprises Mr. DUAN, Mr. SHI, Mr. YAN, Mr. ZHANG Disheng and Mr. CHEN Xiaotao. Mr. DUAN is the Chairman of the Investment Committee. During the year ended 31 March 2007, the Investment Committee reviewed and perused the investment proposals provided by the operating subsidiaries, joint venture companies and operating departments. After having thorough discussion, the Investment Committee approved some investment proposals within their authority limit and submitted those proposals out of their limit to the Board for further consideration.

### D. Nomination of Directors

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

a. review the composition and membership of the Board, inter alia, the length of services and the breadth of expertise of the Board as a whole;

b. identify and nominate to the Board suitable candidate(s) who possess(es) the expertise which is relevant and beneficial to the Group's business; and

c. assess the independence of the Company's INEDs.

On 18 April, 2006, Mr. LIU Jipeng was appointed as an INED of the Company.

On 1 March, 2007, Mr. SHI resigned as CEO but still acted as executive Director of the Company and Mr. DUAN acted as both Chairman and CEO of the Company.

## DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the financial statements for the year ended 31 March 2007, the Directors ensured that the financial statements are in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are also responsible for the timely publication of the financial statements of the Group.

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

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

## AUDITORS' REMUNERATION

For the year ended 31 March 2007, Messrs. KPMG, the external auditors of the Company, received approximately HK$2,770,000 (2006: HK$2,450,000) for audit services, and approximately HK$500,000 (2006: HK$1,320,000) for non-audit services, including fees for review of the Group's interim financial report.

## INTERNAL CONTROLS

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

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

The internal control system of the Company and its subsidiaries for the year ended 31 March 2007 was reviewed by the Audit Committee of the Company in early 2007.

## CORPORATE COMMUNICATION

The objective of shareholder's communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company encourages two way communications with both its institutional and private investors. Extensive information about the Group's activities is provided in the Company's annual reports, interim reports, various notices, announcements and circular which have been sent to its Shareholders. Procedure for demanding voting by poll has been included in all circulars accompanying notice convening general meeting and the detailed procedures for conducting a poll has been read out by the Chairman at general meeting.

Press conferences are held on results announcement to explain the Group's activities, performance and future plans and to enable the public to better understand the Group. Besides, the Company arranged from time to time 'meet the press' luncheons and maintained its corporate website to disseminate the information relating to the Group and its business to the public in order to foster effective communication.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. At the 2006 Annual General Meeting, the Chairman of the Board (also as the Chairman of the Investment Committee) as well as the Chairman of the Audit Committee and the Remuneration Committee were present to answer shareholders' question.

# Independent Auditor's Report

**To the shareholders of**
**Stone Group Holdings Limited**
*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Stone Group Holdings Limited (the "Company") set out on pages 43 to 122, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

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

11 July 2007

# Consolidated Income Statement

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Turnover** | 2 & 14 | **2,375,541** | 2,035,467 |
| **Cost of sales and services** | | **(1,631,519)** | (1,386,465) |
| **Gross profit** | | **744,022** | 649,002 |
| Other revenue | 3 | **23,218** | 26,873 |
| Other net income | 4 | **2,636** | – |
| | | **769,876** | 675,875 |
| Distribution costs | | **(492,750)** | (430,548) |
| Administrative expenses | | **(145,153)** | (107,397) |
| Other operating expenses | | **(30,373)** | (28,736) |
| Net valuation gains/(losses) on investment properties | 15 | **6,744** | (1,040) |
| Non-operating income | 5 | **235,017** | 7,415 |
| Finance costs | 6(a) | **(32,316)** | (37,476) |
| Share of profits less losses of associates | | **(12,463)** | 5,547 |
| Share of loss of a jointly controlled entity | | **–** | (5,101) |
| **Profit before taxation** | 6 | **298,582** | 78,539 |
| Income tax | 7(a) | **(65,343)** | (18,522) |
| **Profit for the year** | | **233,239** | 60,017 |
| **Attributable to:** | | | |
| – Equity shareholders of the Company | 10 & 33(a) | **134,333** | 63,908 |
| – Minority interests | 33(a) | **98,906** | (3,891) |
| **Profit for the year** | 33(a) | **233,239** | 60,017 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | 11 | | |
| Final dividend proposed after the balance sheet date | | **23,192** | 12,533 |
| **Earnings per share** | 12 | | |
| Basic | | **8.62 cents** | 4.24 cents |
| Diluted | | **6.33 cents** | 3.42 cents |

The notes on pages 52 to 122 form part of these financial statements.

# Consolidated Balance Sheet

at 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Investment properties | 15 | | **96,295** | | 88,274 |
| – Property, plant and equipment | 16(a) | | **142,669** | | 114,001 |
| | | | **238,964** | | 202,275 |
| Goodwill | 17 | | **1,136,614** | | 1,136,614 |
| Other intangible assets | 18 | | **33,328** | | 33,617 |
| Interest in associates | 20 | | **388,142** | | 388,468 |
| Other financial assets | 21 | | **44,294** | | 44,046 |
| Deferred tax assets | 34(a) | | **7,241** | | 4,358 |
| | | | **1,848,583** | | 1,809,378 |
| **Current assets** | | | | | |
| Trading securities | 22 | **894,596** | | 683,875 | |
| Inventories | 23 | **193,220** | | 135,408 | |
| Trade and other receivables | 24 | **513,285** | | 386,904 | |
| Pledged deposits | 25 | **–** | | 145 | |
| Cash and cash equivalents | 26 | **477,202** | | 581,761 | |
| | | **2,078,303** | | 1,788,093 | |
| **Current liabilities** | | | | | |
| Bank loans | 27 | **17,231** | | 2,670 | |
| Other loan | 28 | **117,210** | | 116,385 | |
| Trade and other payables | 29 | **286,660** | | 316,067 | |
| Current taxation | 7(b) | **98,210** | | 31,642 | |
| | | **519,311** | | 466,764 | |
| **Net current assets** | | | **1,558,992** | | 1,321,329 |
| **Total assets less current liabilities** | | | **3,407,575** | | 3,130,707 |

at 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Bank loans | 27 | | **4,375** | | – |
| Convertible notes | 30 | | **560,431** | | 574,001 |
| Deferred tax liabilities | 34(a) | | **1,019** | | 852 |
| | | | **565,825** | | 574,853 |
| **NET ASSETS** | | | **2,841,750** | | 2,555,854 |
| **CAPITAL AND RESERVES** | 33(a) | | | | |
| **Share capital** | 32 | | **155,993** | | 150,891 |
| **Reserves** | | | **2,236,560** | | 2,052,463 |
| **Total equity attributable to equity shareholders of the Company** | | | **2,392,553** | | 2,203,354 |
| **Minority interests** | | | **449,197** | | 352,500 |
| **TOTAL EQUITY** | | | **2,841,750** | | 2,555,854 |

Approved and authorised for issue by the board of directors on 11 July 2007

**DUAN Yongji**
*Director*

**SHI Yuzhu**
*Director*

The notes on pages 52 to 122 form part of these financial statements.

# Balance Sheet

at 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Investment properties | 15 | | **4,500** | | 3,900 |
| – Property, plant and equipment | 16(b) | | **744** | | 1,021 |
| | | | **5,244** | | 4,921 |
| Interest in subsidiaries | 19 | | **2,192,265** | | 2,149,810 |
| Interest in associates | 20 | | **433** | | 10,424 |
| Other financial assets | 21 | | **40,825** | | 40,757 |
| | | | **2,238,767** | | 2,205,912 |
| **Current assets** | | | | | |
| Trading securities | 22 | **18,708** | | 141,375 | |
| Inventories | 23 | **15,470** | | – | |
| Trade and other receivables | 24 | **8,324** | | 14,256 | |
| Cash and cash equivalents | 26 | **118,646** | | 117,412 | |
| | | **161,148** | | 273,043 | |
| **Current liability** | | | | | |
| Trade and other payables | 29 | **20,138** | | 72,517 | |
| **Net current assets** | | | **141,010** | | 200,526 |
| **Total assets less current liabilities** | | | **2,379,777** | | 2,406,438 |
| **Non-current liability** | | | | | |
| Convertible notes | 30 | | **560,431** | | 574,001 |
| **NET ASSETS** | | | **1,819,346** | | 1,832,437 |
| **CAPITAL AND RESERVES** | 33(b) | | | | |
| **Share capital** | 32 | | **155,993** | | 150,891 |
| **Reserves** | | | **1,663,353** | | 1,681,546 |
| **TOTAL EQUITY** | | | **1,819,346** | | 1,832,437 |

Approved and authorised for issue by the board of directors on 11 July 2007

**DUAN Yongji**
*Director*

**SHI Yuzhu**
*Director*

The notes on pages 52 to 122 form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Total equity at 1 April 2006/2005** | | | **2,555,854** | | 2,541,105 |
| **Net income recognised directly in equity:** | | | | | |
| Exchange differences on translation of the financial statements of foreign entities | 33(a) | | **43,050** | | 22,691 |
| Capital reserve on shares repurchased | 33(a) | | **667** | | 203 |
| Share of capital reserve of an associate | 33(a) | | **–** | | 72 |
| Changes in fair value of available-for-sale securities | 33(a) | | **68** | | (7,506) |
| Net income directly recognised in equity | | | **43,785** | | 15,460 |
| Impairment loss realised | 33(a) | | **–** | | 7,506 |
| **Net profit for the year** | 33(a) | | **233,239** | | 60,017 |
| **Total recognised income and expense for the year** | | | **277,024** | | 82,983 |
| Attributable to: | | | | | |
| – Equity shareholders of the Company | | **176,080** | | 86,715 | |
| – Minority interests | | **100,944** | | (3,732) | |
| | | **277,024** | | 82,983 | |
| Dividends approved and paid during the year | 33(a) | | **(12,533)** | | (19,642) |
| Dividends paid to minority shareholders | 33(a) | | **(5,853)** | | (64,102) |
| Shares repurchased | 33(a) | | **(2,808)** | | (838) |
| **Movements in equity arising from capital transactions:** | | | | | |
| Movements in share capital and share premium | | | | | |
| – shares issued upon conversion of convertible notes | 33(a) | **29,127** | | 19,344 | |
| – shares repurchased | 32 | **(667)** | | (203) | |
| | | **28,460** | | 19,141 | |
| Share of minority interest in additional interests in a subsidiary | 33(a) | **–** | | (415) | |
| Share of minority interest on disposal of subsidiaries | 33(a) | **1,606** | | (2,378) | |
| | | | **30,066** | | 16,348 |
| **Total equity at 31 March** | | | **2,841,750** | | 2,555,854 |

The notes on pages 52 to 122 form part of these financial statements.

# Consolidated cash flow statement

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit before taxation | | | **298,582** | | 78,539 |
| Adjustments for: | | | | | |
| – Interest charges | | | **30,276** | | 35,601 |
| – Interest income | | | **(8,873)** | | (11,285) |
| – Dividend income | | | **(380)** | | – |
| – Share of profits less losses of associates | | | **12,463** | | (5,547) |
| – Share of loss of a jointly controlled entity | | | **–** | | 5,101 |
| – Amortisation and depreciation | | | **15,104** | | 13,464 |
| – Gain on repurchase of convertible notes | | | **–** | | (24,930) |
| – (Gain)/loss on disposal of interest in subsidiaries | | | **(6,536)** | | 2,059 |
| – Loss on disposal/deemed disposal of interest in associates | | | **–** | | 987 |
| – Excess of interest in net fair value of the acquirees' identifiable assets and liabilities over cost of business combination | | | **(3,084)** | | (1,141) |
| – Loss/(gain) on disposal of property, plant and equipment | | | **158** | | (1,189) |
| – Net valuation (gains)/losses on investment properties | | | **(6,744)** | | 1,040 |
| – Net realised/unrealised (gain)/loss on trading securities | | | **(247,238)** | | 5,358 |
| – Provision for impairment losses on available-for-sale securities | | | **–** | | 7,506 |
| – Gain on disposal of available-for-sale securities | | | **–** | | (17,267) |
| – Provision for diminution in value of a property held for sale | | | **–** | | 3,720 |
| – Reversal of impairment loss on properties | | | **(6,000)** | | (1,958) |
| – Provision for impairment losses on other receivables | | | **27,899** | | 19,266 |
| **Operating profit before changes in working capital** | | | **105,627** | | 109,324 |

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| Increase in amounts due from/to associates (net) | | (30,993) | | (4,960) | |
| (Increase)/decrease in inventories | | (39,325) | | 23,108 | |
| (Increase)/decrease in debtors, prepayments and other receivables | | (126,045) | | 24,796 | |
| Decrease in gross amount due from customers for contract work | | 5,309 | | 11,486 | |
| Decrease in pledged deposits | | 145 | | 33,670 | |
| Decrease in amounts due from related companies | | 1,121 | | 10,205 | |
| Decrease in creditors, accruals and other payables | | (29,883) | | (19,185) | |
| Decrease in amounts due to related companies | | (1,852) | | (2,037) | |
| Foreign exchange | | (3,174) | | 9,657 | |
| | | | (224,697) | | 86,740 |
| **Cash (used in)/generated from operations** | | | (119,070) | | 196,064 |
| Tax (paid)/refund: | | | | | |
| – Hong Kong Profits Tax refund | | 24 | | – | |
| – PRC tax (paid)/refund (net) | | (3,099) | | 1,993 | |
| Interest received | | 8,873 | | 11,285 | |
| | | | 5,798 | | 13,278 |
| **Net cash (used in)/generated from operating activities** | | | (113,272) | | 209,342 |

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Investing activities** | | | | | |
| Acquisition of subsidiaries | 36(a) | **–** | | 67 | |
| Disposal of interest in subsidiaries | 36(d) | **2,361** | | (6,832) | |
| Purchase of fixed assets | | **(35,603)** | | (23,427) | |
| Proceeds from sale of property, plant and equipment | | **74** | | 3,786 | |
| Proceeds from sale of an associate | | **–** | | 5,776 | |
| Purchase of investments | | **(120,324)** | | (113,943) | |
| Proceeds from disposal of investments | | **156,841** | | 195,176 | |
| Acquisition of associates | | **(84)** | | (98,888) | |
| Dividends received from investments | | **380** | | – | |
| **Net cash from/(used in) investing activities** | | | **3,645** | | (38,285) |
| **Financing activities** | | | | | |
| Interest paid | | **(14,691)** | | (17,742) | |
| Dividends paid | | **(12,533)** | | (19,642) | |
| Dividends paid to minority shareholders | | **(5,853)** | | (64,102) | |
| Expenses paid in connection with share issues and conversion of convertible notes | | **(28)** | | (19) | |
| Shares repurchased | | **(2,808)** | | (838) | |
| Repurchase of convertible notes | | **–** | | (82,496) | |
| New other loan | | **–** | | 116,385 | |
| New bank loans | | **127,933** | | 2,670 | |
| Repayment of bank loans | | **(109,175)** | | (35,884) | |
| **Net cash used in financing activities** | | | **(17,155)** | | (101,668) |

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2007 $'000 | 2006 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| **Net (decrease)/increase in cash and cash equivalents** | | | **(126,782)** | | 69,389 |
| **Effect of foreign exchange rate changes** | | | **22,223** | | 7,862 |
| **Cash and cash equivalents at 1 April 2006/2005** | | | **581,761** | | 504,510 |
| **Cash and cash equivalents at 31 March** | 26 | | **477,202** | | 581,761 |

The notes on pages 52 to 122 form part of these financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group (hereafter defined) is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 44).

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(g)); and

– financial instruments classified as available-for-sale or as trading securities (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 43.

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o), (p) or (q) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' or the jointly controlled entities' net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and (k)).

Where the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)).

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Other investments in debt and equity securities *(Continued)*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(v)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

### (h) Other property, plant and equipment

Other property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Other property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold land and buildings in Hong Kong | over the shorter of remaining lease term, or 50 years |
| Land use rights and buildings outside Hong Kong in the People's Republic of China (the "PRC") | over the period of the lease |
| Furniture, fixtures and fittings | 3 to 20 years |
| Plant, machinery and equipment | 2 to 10 years |
| Motor vehicles | 3 to 10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

Intangible assets represent product trademarks, patent rights for the manufacturing of healthcare products and patent rights for software development acquired by the Group and are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of 10 to 20 years.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee, if later.

#### *(ii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of assets

#### *(i) Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of assets *(Continued)*

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- intangible assets;
- investments in subsidiaries, associates and jointly controlled entity (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*
  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*
  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of assets *(Continued)*

***(ii) Impairment of other assets*** *(Continued)*

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (l) Inventories

***(i) Trading and manufacturing***

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

***(ii) Property development***

Properties held for sale are carried at the lower of cost and net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised (see note 1(x)), attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Construction contracts

The accounting policy for contract revenue is set out in note 1(v)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, prepayments and other receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Creditors, accruals and other payables".

### (n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

### (o) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the note is converted or redeemed.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Convertible notes *(Continued)*

If the note is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the other reserve is released directly to retained profits.

### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (s) Employee benefits

#### *(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

The employees of the PRC subsidiaries participate in defined contribution retirement plans managed by the local government authority whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local government defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs. The Group's contributions to these plans are charged to the income statement when incurred. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Employee benefits *(Continued)*

#### *(ii) Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium) or the option expires (when it is released directly to retained profits).

#### *(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (v) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

#### *(ii) Fee income*

Fee income from value-added technical services is recognised when the services are rendered.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Revenue recognition *(Continued)*

***(iii) Contract revenue***

When the outcome of a construction contract can be estimated reliably:

– revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

– revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

***(iv) Rental income from operating leases***

Rental income receivables under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

***(v) Dividends***

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

***(vi) Interest income***

Interest income is recognised as it accrues using the effective interest method.

***(vii) Government subsidies***

Government subsidies are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations outside Hong Kong in the PRC are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 April 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (x) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(Expressed in Hong Kong dollars)

## 2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing, distribution and sale of healthcare products, electronic and electrical products, office equipment and provision of related services, and media-related business. Further details of the principal subsidiaries are set out in note 45 on the financial statements.

Turnover represents the invoiced value of goods sold and services provided to customers by the Group less returns, discounts, business tax and value-added tax, and fee income from value-added technical services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Manufacturing, distribution and sale of healthcare products | **1,129,029** | 996,658 |
| Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services | **1,240,606** | 1,032,729 |
| Media-related business | **5,906** | 6,080 |
| | **2,375,541** | 2,035,467 |

## 3 OTHER REVENUE

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Government subsidies (Note) | **5,208** | 13,083 |
| Interest income | **8,873** | 11,285 |
| Rental received from investment properties less outgoings | **8,249** | 1,497 |
| Dividend income from investments | **380** | – |
| Others | **508** | 1,008 |
| | **23,218** | 26,873 |

Note: These represent refunds of certain percentage of the Group's value-added tax and business tax payments from local municipal government in Shanghai.

(Expressed in Hong Kong dollars)

## 4 OTHER NET INCOME

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Net gain on sale of marketing materials | 1,763 | – |
| Net exchange gain/(loss) | 1,031 | (1,189) |
| (Loss)/gain on disposal of property, plant and equipment | (158) | 1,189 |
| | 2,636 | – |

## 5 NON-OPERATING INCOME

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Net realised/unrealised gain/(loss) on trading securities | 247,238 | (5,358) |
| Gain on disposal of available-for-sale securities | – | 17,267 |
| Provision for impairment loss on available-for-sale securities | – | (7,506) |
| Gain/(loss) on disposal of interest in subsidiaries | 6,536 | (2,059) |
| Loss on disposal/deemed disposal of associates | – | (987) |
| Excess of interest in net fair value of the acquirees' identifiable assets and liabilities over cost of business combination | 3,084 | 1,141 |
| Gain on repurchase of convertible notes (note 30(c)) | – | 24,930 |
| Provision for impairment losses on other receivables | (27,899) | (19,266) |
| Provision for diminution in value of a property held for sale | – | (3,720) |
| Reversal of impairment loss on properties | 6,000 | 1,958 |
| Others | 58 | 1,015 |
| | 235,017 | 7,415 |

(Expressed in Hong Kong dollars)

## 6 PROFIT BEFORE TAXATION

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

| | | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| (a) | Finance costs: | | |
| | Interest on bank advances and other borrowings repayable within five years | **23,560** | 31,445 |
| | Interest on other loan | **6,716** | 4,156 |
| | Other borrowing costs | **2,040** | 1,875 |
| | Total borrowing costs | **32,316** | 37,476 |
| (b) | Other items: | | |
| | Costs of inventories | **1,629,761** | 1,383,421 |
| | Staff costs (including retirement costs of $5,482,000 (2006: $5,318,000)) | **188,019** | 143,155 |
| | Amortisation of other intangible assets | **1,970** | 1,876 |
| | Research and development costs | **1,976** | 2,680 |
| | Provision for write-down in value of obsolete inventories made/(written back) | **6,867** | (3,184) |
| | Impairment losses for bad and doubtful debts | **3,310** | 13,939 |
| | Depreciation | **13,134** | 11,588 |
| | Dividend income from investments | | |
| | – listed | **(350)** | – |
| | – unlisted | **(30)** | – |
| | Auditors' remuneration | | |
| | – audit services | **2,770** | 2,450 |
| | – other services | **500** | 1,320 |
| | Operating lease charges: minimum lease payments for land and buildings | **40,599** | 29,812 |

## 7 INCOME TAX

### (a) Income tax in the consolidated income statement represents:

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| **Current tax** | | |
| Provision for Hong Kong Profits Tax | – | – |
| Provision for income tax outside Hong Kong in the PRC ("PRC enterprise income tax") | 68,059 | 17,512 |
| | 68,059 | 17,512 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 34(a)) | (2,716) | 1,010 |
| | 65,343 | 18,522 |

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

***Reconciliation between tax expense and accounting profit at applicable tax rates:***

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Profit before taxation | 298,582 | 78,539 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 86,423 | 31,787 |
| Tax effect of non-deductible expenses | 29,260 | 41,141 |
| Tax effect of non-taxable revenue | (61,851) | (67,795) |
| Tax effect of unused tax losses not recognised | 11,511 | 13,389 |
| Actual tax expense | 65,343 | 18,522 |

(Expressed in Hong Kong dollars)

## 7 INCOME TAX *(Continued)*

### (b) Current taxation in the balance sheets represents:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Provision for Hong Kong Profits Tax | | | | |
| – Provisional Profits Tax paid | **–** | (24) | **–** | – |
| Provision for PRC enterprise income tax | **98,210** | 31,666 | **–** | – |
| | **98,210** | 31,642 | **–** | – |

## 8 DIRECTORS' REMUNERATION

Directors' remuneration, excluding emoluments waived, disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | **Directors' fees** | **Salaries and other emoluments** | **Retirement scheme contributions** | **2007 Total** |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** |
| *Executive directors* | | | | |
| DUAN Yongji | **–** | **4,148** | **–** | **4,148** |
| SHI Yuzhu | **–** | **1,740** | **–** | **1,740** |
| SHEN Guojun | **–** | **1,020** | **–** | **1,020** |
| ZHANG Disheng | **–** | **1,655** | **20** | **1,675** |
| CHEN Xiaotao | **–** | **400** | **–** | **400** |
| LIU Wei | **–** | **1,778** | **–** | **1,778** |
| *Independent non-executive directors* | | | | |
| NG Ming Wah, Charles | **271** | **–** | **–** | **271** |
| Andrew Y YAN | **269** | **–** | **–** | **269** |
| LIU Ji | **239** | **–** | **–** | **239** |
| LIU Jipeng | **234** | **–** | **–** | **234** |
| | **1,013** | **10,741** | **20** | **11,774** |

## 8 DIRECTORS' REMUNERATION *(Continued)*

| | Directors' fees $'000 | Salaries and other emoluments $'000 | Retirement scheme contributions $'000 | 2006 Total $'000 |
|---|---|---|---|---|
| *Executive directors* | | | | |
| DUAN Yongji | – | 1,104 | – | 1,104 |
| SHI Yuzhu | – | 180 | – | 180 |
| SHEN Guojun | – | 787 | – | 787 |
| ZHANG Disheng | – | 834 | 16 | 850 |
| CHEN Xiaotao | – | – | – | – |
| LIU Wei | – | 388 | 5 | 393 |
| *Independent non-executive directors* | | | | |
| NG Ming Wah, Charles | 170 | – | – | 170 |
| Andrew Y YAN | 150 | – | – | 150 |
| LIU Ji | 104 | – | – | 104 |
| YUAN Zhenyu | – | – | – | – |
| | 424 | 3,293 | 21 | 3,738 |

In addition, directors are eligible under the Company's share option scheme to subscribe for shares in the Company. There were no options granted to the directors during the year. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 31.

During the year ended 31 March 2007, two directors agreed to waive part of their emoluments totalling $11,720,000 (2006: $13,463,000) to which they are entitled under the service contracts entered into with the Company.

(Expressed in Hong Kong dollars)

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments comprise four (2006: two) directors whose emoluments are disclosed in note 8 and one (2006: three) employees. Details of the emoluments in respect of these employees are as follows:

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Salary, housing and other emoluments | 899 | 2,829 |
| Discretionary bonuses | 540 | – |
| Share-based payments | – | – |
| Retirement scheme contributions | 20 | 45 |
| | 1,459 | 2,874 |

The emoluments of the above employees are within the following bands:

| | 2007<br>Number of employees | 2006<br>Number of employees |
|---|---|---|
| $0 – $1,000,000 | – | 3 |
| $1,000,001 – $1,500,000 | 1 | – |

## 10 PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit for the year attributable to equity shareholders of the Company includes a loss of $26,945,000 (2006: profit of $78,346,000) which has been dealt with in the financial statements of the Company.

## 11 DIVIDENDS

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Final dividend proposed after the balance sheet date of 1.3 cents (2006: 0.8 cent) per share | 23,192 | 12,533 |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(Expressed in Hong Kong dollars)

## 12 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of $134,333,000 (2006: $63,908,000) and the weighted average number of ordinary shares of approximately 1,558,705,000 shares (2006: 1,507,510,000 shares) in issue during the year, calculated as follows:

***Weighted average number of ordinary shares***

| | 2007<br>'000 | 2006<br>'000 |
|---|---|---|
| Issued ordinary shares at 1 April 2006/2005 | **1,508,914** | 1,472,479 |
| Effect of conversion of convertible notes | **53,583** | 35,826 |
| Effect of repurchase of own shares | **(3,792)** | (795) |
| Weighted average number of ordinary shares at 31 March | **1,558,705** | 1,507,510 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to the equity shareholders of the Company of $156,495,000 (2006: $92,290,000) and the weighted average number of ordinary shares of approximately 2,472,228,000 shares (2006: 2,695,329,000 shares) calculated as follows:

***(i) Profit attributable to equity shareholders of the Company (diluted)***

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Profit attributable to equity shareholders | **134,333** | 63,908 |
| Effect of effective interest on liability component of convertible notes | **22,162** | 28,382 |
| Profit attributable to equity shareholders (diluted) | **156,495** | 92,290 |

(Expressed in Hong Kong dollars)

## 12 EARNINGS PER SHARE *(Continued)*

### (b) Diluted earnings per share *(Continued)*

#### *(ii) Weighted average number of ordinary shares (diluted)*

| | 2007<br>'000 | 2006<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 March | **1,558,705** | 1,507,510 |
| Effect of conversion of convertible notes | **913,523** | 1,187,819 |
| Weighted average number of ordinary shares (diluted) at 31 March | **2,472,228** | 2,695,329 |

## 13 RETIREMENT SCHEMES

Pursuant to the requirements of the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme") and related guidelines, the Group's and employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant staff. The Group's contributions payable to the MPF Scheme are charged to the income statement. Retirement costs for the MPF Scheme for the year were $178,000 (2006: $194,000).

The employees of the subsidiaries in the PRC are members of the Central Pension Scheme operated by the Government of the PRC. The subsidiaries are required to contribute a certain percentage of the employee's payroll to the Central Pension Scheme to fund the benefits. The obligation for the Group with respect to the Central Pension Scheme is the required contributions under the Central Pension Scheme.

Other than the above, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs.

Retirement costs for the Central Pension Scheme and supplementary retirement plans for the year were $5,304,000 (2006: $5,124,000).

## 14 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financing reporting.

### Business segments

The Group comprises the following main business segments:

Healthcare : The manufacture, distribution and sale of healthcare products.

Electronics : The manufacture, distribution and sale of electronic and electrical products, office equipment and provision of related services.

Media-related business : The provision of ancillary services for the development of the cable television and other media-related business.

| | Healthcare | | Electronics | | Media-related business | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue from external customers | 1,129,029 | 996,658 | 1,240,606 | 1,032,729 | 5,906 | 6,080 | – | – | 2,375,541 | 2,035,467 |
| Other revenue from external customers | 5,208 | 13,148 | 340 | 2,024 | 123 | 253 | 17,547 | 11,448 | 23,218 | 26,873 |
| Total | 1,134,237 | 1,009,806 | 1,240,946 | 1,034,753 | 6,029 | 6,333 | 17,547 | 11,448 | 2,398,759 | 2,062,340 |
| Segment result | 117,728 | 145,109 | 12,617 | (24,367) | (3,975) | (5,656) | (24,770) | (5,892) | 101,600 | 109,194 |
| Net valuation gains/ (losses) on investment properties | | | | | | | | | 6,744 | (1,040) |
| Non-operating income | | | | | | | | | 235,017 | 7,415 |
| Finance costs | | | | | | | | | (32,316) | (37,476) |
| Share of profits less losses of associates | – | – | 1,465 | (10,468) | (13,926) | 17,020 | (2) | (1,005) | (12,463) | 5,547 |
| Share of loss of a jointly controlled entity | – | – | – | – | – | (5,101) | – | – | – | (5,101) |
| Income tax | | | | | | | | | (65,343) | (18,522) |
| Profit for the year | | | | | | | | | 233,239 | 60,017 |

(Expressed in Hong Kong dollars)

## 14 SEGMENT REPORTING *(Continued)*

### Business segments *(Continued)*

| | Healthcare | | Electronics | | Media-related business | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Depreciation and amortisation for the year | **4,240** | 3,899 | **7,070** | 6,103 | **1,726** | 1,382 | **2,068** | 2,080 | **15,104** | 13,464 |
| Reversal of impairment loss | **–** | – | **–** | – | **–** | – | **6,000** | 1,958 | **6,000** | 1,958 |
| Significant non-cash expenses (other than depreciation and amortisation) | **10,648** | (3,405) | **27,428** | 24,286 | **–** | – | **–** | 9,140 | **38,076** | 30,021 |
| Segment assets | **1,829,745** | 1,582,925 | **631,352** | 635,839 | **687,088** | 10,343 | **390,559** | 979,896 | **3,538,744** | 3,209,003 |
| Interest in associates | **–** | – | **34,762** | 24,880 | **347,977** | 353,672 | **5,403** | 9,916 | **388,142** | 388,468 |
| Total assets | | | | | | | | | **3,926,886** | 3,597,471 |
| Segment liabilities | **193,924** | 93,322 | **179,111** | 170,964 | **120,204** | 1,345 | **591,897** | 775,986 | **1,085,136** | 1,041,617 |
| Capital expenditure incurred during the year | **7,545** | 3,337 | **10,127** | 15,728 | **841** | 3,023 | **149** | 1,339 | **18,662** | 23,427 |

### Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the PRC. There is no other geographical segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

(Expressed in Hong Kong dollars)

## 15 INVESTMENT PROPERTIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ***Valuation:*** | | | | |
| At 1 April 2006/2005 | **88,274** | 84,009 | **3,900** | 3,900 |
| Exchange adjustments | **2,596** | 1,202 | **–** | – |
| Additions during the year | **–** | 4,037 | **–** | – |
| Surplus/(deficit) on revaluation | **6,744** | (1,040) | **600** | – |
| Transfer (to)/from fixed assets (note 16(a)) | **(1,319)** | 66 | **–** | – |
| At 31 March | **96,295** | 88,274 | **4,500** | 3,900 |

(a) The analysis of valuation of investment properties is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Held in Hong Kong under long-term leases | **2,000** | 1,880 | **–** | – |
| Held outside Hong Kong in the PRC under medium-term leases | **94,295** | 86,394 | **4,500** | 3,900 |
| | **96,295** | 88,274 | **4,500** | 3,900 |

## 15 INVESTMENT PROPERTIES *(Continued)*

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31 March 2007 on an open market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income allowing for reversionary income potential. The valuations were carried out by independent firms of surveyors, RHL Appraisal Limited and DTZ Debenham Tie Leung Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of property being valued.

(c) The gross carrying amounts of investment properties of the Group held for use in operating leases were $96,295,000 (2006: $88,274,000).

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 6 months to 2 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

(d) The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **4,280** | 5,069 | **290** | 407 |
| After 1 year but within 5 years | **868** | 2,463 | **17** | 296 |
| | **5,148** | 7,532 | **307** | 703 |

(Expressed in Hong Kong dollars)

## 16 PROPERTY, PLANT AND EQUIPMENT

### (a) Group

| | Property under development $'000 | Land and buildings held for own use $'000 | Furniture, fixtures and fittings $'000 | Plant, machinery and equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Cost or valuation:*** | | | | | | |
| At 1 April 2006 | – | 126,345 | 12,419 | 32,840 | 36,351 | 207,955 |
| Transfer from investment properties (note 15) | – | 1,319 | – | – | – | 1,319 |
| Additions for the year | 17,407 | 5,566 | 1,062 | 7,592 | 3,976 | 35,603 |
| Reductions through disposal of subsidiaries | – | – | (813) | (3,284) | (2,646) | (6,743) |
| Other disposals | – | – | (43) | (1,063) | (925) | (2,031) |
| Exchange adjustments | – | 2,432 | 259 | 1,529 | 1,652 | 5,872 |
| At 31 March 2007 | 17,407 | 135,662 | 12,884 | 37,614 | 38,408 | 241,975 |
| ***Representing:*** | | | | | | |
| Cost | 17,407 | 134,969 | 12,884 | 37,614 | 38,408 | 241,282 |
| Valuation in 1992 | – | 693 | – | – | – | 693 |
| | 17,407 | 135,662 | 12,884 | 37,614 | 38,408 | 241,975 |
| ***Accumulated amortisation and depreciation:*** | | | | | | |
| At 1 April 2006 | – | 47,559 | 4,657 | 19,291 | 22,447 | 93,954 |
| Charge for the year | – | 2,827 | 1,393 | 4,560 | 4,354 | 13,134 |
| Reductions through disposal of subsidiaries | – | – | (444) | (1,603) | (1,095) | (3,142) |
| Written back on disposals | – | – | (20) | (854) | (925) | (1,799) |
| Reversal of impairment loss (Note) | – | (6,000) | – | – | – | (6,000) |
| Exchange adjustments | – | 1,197 | 121 | 883 | 958 | 3,159 |
| At 31 March 2007 | – | 45,583 | 5,707 | 22,277 | 25,739 | 99,306 |
| ***Net book value:*** | | | | | | |
| At 31 March 2007 | 17,407 | 90,079 | 7,177 | 15,337 | 12,669 | 142,669 |

(Expressed in Hong Kong dollars)

## 16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (a) Group *(Continued)*

| | Property under development $'000 | Land and buildings held for own use $'000 | Furniture, fixtures and fittings $'000 | Plant, machinery and equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Cost or valuation:*** | | | | | | |
| At 1 April 2005 | – | 127,480 | 10,057 | 24,367 | 33,420 | 195,324 |
| Transfer to investment properties (note 15) | – | (66) | – | – | – | (66) |
| Additions through acquisition of a subsidiary | – | – | 631 | 1,513 | – | 2,144 |
| Other additions | – | 4,044 | 1,997 | 7,714 | 5,635 | 19,390 |
| Reductions through disposal of a subsidiary | – | – | (207) | (791) | (507) | (1,505) |
| Other disposals | – | (6,363) | (150) | (531) | (2,953) | (9,997) |
| Exchange adjustments | – | 1,250 | 91 | 568 | 756 | 2,665 |
| At 31 March 2006 | – | 126,345 | 12,419 | 32,840 | 36,351 | 207,955 |
| ***Representing:*** | | | | | | |
| Cost | – | 125,652 | 12,419 | 32,840 | 36,351 | 207,262 |
| Valuation in 1992 | – | 693 | – | – | – | 693 |
| | – | 126,345 | 12,419 | 32,840 | 36,351 | 207,955 |
| ***Accumulated amortisation and depreciation:*** | | | | | | |
| At 1 April 2005 | – | 50,533 | 3,210 | 15,771 | 20,641 | 90,155 |
| Charge for the year | – | 2,624 | 1,179 | 3,428 | 4,357 | 11,588 |
| Additions through acquisition of a subsidiary | – | – | 306 | 742 | – | 1,048 |
| Reductions through disposal of a subsidiary | – | – | (21) | (567) | (384) | (972) |
| Written back on disposals | – | (4,297) | (51) | (448) | (2,604) | (7,400) |
| Reversal of impairment loss (Note) | – | (1,958) | – | – | – | (1,958) |
| Exchange adjustments | – | 657 | 34 | 365 | 437 | 1,493 |
| At 31 March 2006 | – | 47,559 | 4,657 | 19,291 | 22,447 | 93,954 |
| ***Net book value:*** | | | | | | |
| At 31 March 2006 | – | 78,786 | 7,762 | 13,549 | 13,904 | 114,001 |

(Expressed in Hong Kong dollars)

## 16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (a) Group *(Continued)*

Note: Due to the continual growth of the Hong Kong property market, the Group reassessed the recoverable amount of the land and buildings held for own use at the balance sheet date and $6,000,000 (2006: $1,958,000) of the recognised impairment loss was reversed during the year (included in "Non-operating income"). The estimates of recoverable amount were determined on an open market value basis by an independent firm of surveyors, RHL Appraisal Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors.

### (b) Company

| | Furniture, fixtures and fittings $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|
| ***Cost or valuation:*** | | | |
| At 1 April 2006 | 3,317 | 3,321 | 6,638 |
| Additions | 149 | – | 149 |
| Disposals | (11) | – | (11) |
| At 31 March 2007 | 3,455 | 3,321 | 6,776 |
| ***Accumulated amortisation and depreciation:*** | | | |
| At 1 April 2006 | 2,342 | 3,275 | 5,617 |
| Charge for the year | 398 | 28 | 426 |
| Written back on disposals | (11) | – | (11) |
| At 31 March 2007 | 2,729 | 3,303 | 6,032 |
| ***Net book value:*** | | | |
| At 31 March 2007 | 726 | 18 | 744 |

(Expressed in Hong Kong dollars)

## 16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (b) Company *(Continued)*

| | Furniture, fixtures and fittings $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|
| ***Cost or valuation:*** | | | |
| At 1 April 2005 | 2,709 | 3,321 | 6,030 |
| Additions | 623 | – | 623 |
| Disposals | (15) | – | (15) |
| At 31 March 2006 | 3,317 | 3,321 | 6,638 |
| ***Accumulated amortisation and depreciation:*** | | | |
| At 1 April 2005 | 1,906 | 3,220 | 5,126 |
| Charge for the year | 450 | 55 | 505 |
| Written back on disposals | (14) | – | (14) |
| At 31 March 2006 | 2,342 | 3,275 | 5,617 |
| ***Net book value:*** | | | |
| At 31 March 2006 | 975 | 46 | 1,021 |

(Expressed in Hong Kong dollars)

## 16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

**(c)** The analysis of cost or valuation of land and buildings is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Held in Hong Kong under long-term leases | **47,084** | 47,084 |
| Held outside Hong Kong in the PRC under medium-term leases | **84,125** | 75,021 |
| Held outside Hong Kong in the PRC under short-term leases | **4,453** | 4,240 |
| | **135,662** | 126,345 |

**(d)** Land and buildings held by a subsidiary with carrying value of $29,400,000 (2006: $24,000,000) was pledged as security for banking facilities amounting to $35,000,000 (2006: $35,000,000), which were utilised to the extent of $15,781,000 at 31 March 2007 (2006: $2,670,000) (note 27).

## 17 GOODWILL

| | **Group** |
|---|---|
| | $'000 |
| ***Cost:*** | |
| At 1 April 2005/2006 and 31 March 2006/2007 | 1,140,132 |
| ***Accumulated impairment losses:*** | |
| At 1 April 2005/2006 and 31 March 2006/2007 (Note) | 3,518 |
| ***Carrying amount:*** | |
| At 31 March 2006 and 2007 | 1,136,614 |

(Expressed in Hong Kong dollars)

## 17 GOODWILL *(Continued)*

Note:

**Impairment test for cash-generating unit containing goodwill**

Goodwill at the balance sheet date primarily related to the distribution network of "Naobaijin" and "GoldPartner" operated by the subsidiaries of Central New International Limited ("Central New"), which is the main purpose of the acquisition of Central New and the synergy effect that can be achieved by centralising the logistical arrangements of the healthcare product distribution network and that of the consumer electronic and electrical products.

The healthcare manufacturing and distribution unit contains the whole of the goodwill arising from the acquisition of Central New. The impairment test of this unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results for the year ended 31 March 2007 and approved budget for the year ending 31 March 2008. In view of the introduction of new products in the coming years, cash flows for the years ending 31 March 2009, 2010, 2011 and 2012 are extrapolated using 18 per cent, 22 per cent, 16 per cent and 14 per cent growth rate respectively and remain constant thereafter for a further 9-year period. The growth rate is consistent with the growth rate for the industry. Pre-tax discount rates ranging from 11.54 to 11.74 per cent have been used in discounting the projected cash flows.

The key assumption is the annual growth of the turnover of the healthcare products and it is determined based on the statistical analysis of the annual consumption of healthcare products in the PRC adjusted for actual experience. The turnover growth of the healthcare products is considered to be in line with the cash flow projections.

The carrying amount of the unit approximates to its recoverable amount. Any adverse change in the key assumption could reduce the recoverable amount below carrying amount.

(Expressed in Hong Kong dollars)

## 18 OTHER INTANGIBLE ASSETS

### Group

| | Trademark and patent rights $'000 | Computer software $'000 | Total $'000 |
|---|---|---|---|
| ***Cost:*** | | | |
| At 1 April 2006 | 37,525 | – | 37,525 |
| Exchange adjustments | 1,876 | – | 1,876 |
| At 31 March 2007 | 39,401 | – | 39,401 |
| ***Accumulated amortisation and impairment losses:*** | | | |
| At 1 April 2006 | 3,908 | – | 3,908 |
| Amortisation for the year | 1,970 | – | 1,970 |
| Exchange adjustments | 195 | – | 195 |
| At 31 March 2007 | 6,073 | – | 6,073 |
| ***Carrying amount:*** | | | |
| At 31 March 2007 | 33,328 | – | 33,328 |

(Expressed in Hong Kong dollars)

## 18 OTHER INTANGIBLE ASSETS *(Continued)*

### Group *(Continued)*

| | Trademark and patent rights | Computer software | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| ***Cost:*** | | | |
| At 1 April 2005 | 36,605 | 10,178 | 46,783 |
| Exchange adjustments | 920 | 256 | 1,176 |
| Reductions through disposal of a subsidiary | – | (10,434) | (10,434) |
| At 31 March 2006 | 37,525 | – | 37,525 |
| ***Accumulated amortisation and impairment losses:*** | | | |
| At 1 April 2005 | 1,982 | 10,178 | 12,160 |
| Amortisation for the year | 1,876 | – | 1,876 |
| Exchange adjustments | 50 | 256 | 306 |
| Reductions through disposal of a subsidiary | – | (10,434) | (10,434) |
| At 31 March 2006 | 3,908 | – | 3,908 |
| ***Carrying amount:*** | | | |
| At 31 March 2006 | 33,617 | – | 33,617 |

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

## 19 INTEREST IN SUBSIDIARIES

| | Company 2007 $'000 | 2006 $'000 |
|---|---|---|
| Unlisted investments, at cost | **288,424** | 316,564 |
| Amounts due from subsidiaries (Note) | **2,109,287** | 2,072,460 |
| Amounts due to subsidiaries (Note) | **(1,948)** | (1,848) |
| | **2,395,763** | 2,387,176 |
| Less: Impairment loss | **(203,498)** | (237,366) |
| | **2,192,265** | 2,149,810 |

Note: Except for an amount of $1,945,000 (2006: $1,848,000) due to subsidiaries which is interest-bearing at London Interbank Offered Rate ("LIBOR") plus 1% (2006: LIBOR plus 1%) per annum, all the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

Details of the principal subsidiaries are set out in note 45 on the financial statements.

## 20 INTEREST IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Unlisted investments, at cost | **–** | – | **433** | 10,424 |
| Share of net assets | **317,905** | 318,231 | **–** | – |
| Goodwill (Note (a)) | **75,654** | 75,654 | **–** | – |
| | **393,559** | 393,885 | **433** | 10,424 |
| Less: Impairment loss | **(5,417)** | (5,417) | **–** | – |
| | **388,142** | 388,468 | **433** | 10,424 |

## 20 INTEREST IN ASSOCIATES *(Continued)*

**(a)** 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 had given rise to goodwill of approximately $76 million.

Cayman MTY is mainly engaged in the wireless telecommunication value-added services ("VAS") business in the PRC, providing location-based and leisure-oriented wireless information services to the general public of the PRC, and delivering mobile data solutions to commercial enterprises through its nation-wide data and voice network platforms. As the wireless telecommunication VAS market in the PRC has substantial growth potential, goodwill arising from the acquisition primarily represents the future economic benefits that Cayman MTY expects to generate from its established position in the wireless telecommunication VAS market in the PRC and the synergy effect that can be achieved from the business cooperation between Cayman MTY and the Group's existing media-related operations.

**(b)** Details of the principal associates are set out in note 46 on the financial statements.

(Expressed in Hong Kong dollars)

## 20 INTEREST IN ASSOCIATES *(Continued)*

### (c) Summary financial information on associates

| | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenue $'000 | Profit/ (loss) $'000 |
|---|---|---|---|---|---|
| **2007** | | | | | |
| 100 per cent | **1,039,316** | **(228,608)** | **810,708** | **195,229** | **(35,030)** |
| Group's effective interest | **405,140** | **(87,235)** | **317,905** | **77,931** | **(12,463)** |
| 2006 | | | | | |
| 100 per cent | 1,125,915 | (258,135) | 867,780 | 255,915 | 5,310 |
| Group's effective interest | 420,070 | (101,839) | 318,231 | 85,148 | 5,547 |

## 21 OTHER FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| ***Available-for-sale equity securities*** | | | | |
| Listed in Hong Kong | **1,755** | 1,687 | **1,755** | 1,687 |
| Unlisted | **42,539** | 42,359 | **39,070** | 39,070 |
| | **44,294** | 44,046 | **40,825** | 40,757 |
| Market value of listed securities | **1,755** | 1,687 | **1,755** | 1,687 |

(Expressed in Hong Kong dollars)

## 22 TRADING SECURITIES

| | Group 2007 $'000 | Group 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|
| ***Equity securities, at market value*** | | | | |
| Listed in Hong Kong | **19,864** | 142,192 | **18,708** | 141,375 |
| Listed outside Hong Kong | **874,732** | 541,683 | **–** | – |
| | **894,596** | 683,875 | **18,708** | 141,375 |

## 23 INVENTORIES

| | Group 2007 $'000 | Group 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|
| ***Trading and manufacturing*** | | | | |
| Raw materials | **11,849** | 14,930 | **–** | – |
| Work in progress | **2,534** | 847 | **–** | – |
| Finished goods | **163,367** | 116,732 | **–** | – |
| | **177,750** | 132,509 | **–** | – |
| ***Property development*** | | | | |
| Properties held for sale | **15,470** | 2,899 | **15,470** | – |
| | **193,220** | 135,408 | **15,470** | – |

The amount of trading and manufacturing inventories carried at net realisable value is $26,726,000 (2006: $21,497,000).

Properties held for sale at 31 March 2006 were carried at net realisable value based on management estimates by reference to prevailing market conditions.

## 24 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Debtors, prepayments and other receivables | **423,955** | 323,849 | **4,284** | 4,957 |
| Gross amount due from customers for contract work | **1,271** | 6,267 | **–** | – |
| Amounts due from associates | **71,727** | 40,166 | **–** | 5,353 |
| Amounts due from related companies | **16,332** | 16,622 | **4,040** | 3,946 |
| | **513,285** | 386,904 | **8,324** | 14,256 |

Except for the amounts of $9,237,000 (2006: $Nil) which are expected to be recovered more than one year, all of the trade and other receivables are expected to be recovered within one year.

The Group's credit policy is set out in note 35(a).

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:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Current | **304,158** | 187,660 |
| Due over 6 months but within 12 months | **4,795** | 2,723 |
| | **308,953** | 190,383 |

(Expressed in Hong Kong dollars)

## 25 PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $'000 | $'000 | $'000 | $'000 |
| Pledged deposits with banks | – | 145 | – | – |

At 31 March 2006, deposit of $145,000 was pledged as security against trade finance banking facilities extended to a subsidiary. Such deposit has been released during the year ended 31 March 2007.

## 26 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $'000 | $'000 | $'000 | $'000 |
| Deposits with banks and other financial institutions | 57,370 | 87,712 | 22,007 | 34,424 |
| Cash at bank and in hand | 419,832 | 494,049 | 96,639 | 82,988 |
| Cash and cash equivalents in the balance sheets and consolidated cash flow statement | 477,202 | 581,761 | 118,646 | 117,412 |

(Expressed in Hong Kong dollars)

## 27 BANK LOANS

At 31 March 2006 and 2007, the bank loans were repayable as follows:

| | Group 2007 $'000 | 2006 $'000 |
|---|---|---|
| Within 1 year | **17,231** | 2,670 |
| After 1 year but within 2 years | **2,500** | – |
| After 2 years but within 5 years | **1,875** | – |
| | **4,375** | – |
| | **21,606** | 2,670 |

At 31 March 2007, the banking facilities of certain subsidiaries of the Group are secured by mortgages over land and buildings with an aggregate carrying value of $29,400,000 (2006: $24,000,000) (note 16(d)). At 31 March 2007, such banking facilities amounting to $35,000,000 (2006: $35,000,000), were utilised to the extent of $15,781,000 (2006: $2,670,000).

## 28 OTHER LOAN

| | Group 2007 $'000 | 2006 $'000 |
|---|---|---|
| Secured and repayable on demand | **117,210** | 116,385 |

The other loan is secured by 2,500,000 ordinary shares of SINA Corporation held by the Group with carrying value of US$84.0 million (equivalent to approximately $657 million) as at 31 March 2007 (2006: US$69.8 million (equivalent to approximately $541 million)). This loan bears interest at a rate of LIBOR plus 0.5% per annum and is repayable on demand.

(Expressed in Hong Kong dollars)

## 29 TRADE AND OTHER PAYABLES

| | Group 2007 $'000 | Group 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|
| Creditors, accruals and other payables | **277,649** | 304,940 | **20,039** | 72,418 |
| Amounts due to associates | **–** | 264 | **–** | – |
| Amounts due to related companies | **9,011** | 10,863 | **99** | 99 |
| | **286,660** | 316,067 | **20,138** | 72,517 |

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:

| | Group 2007 $'000 | Group 2006 $'000 |
|---|---|---|
| Due within 6 months or on demand | **57,445** | 78,131 |
| Due after 6 months but within 12 months | **483** | 721 |
| Due after 12 months but within 24 months | **322** | 79 |
| Due after 24 months but within 36 months | **31** | 37 |
| | **58,281** | 78,968 |

(Expressed in Hong Kong dollars)

## 30 CONVERTIBLE NOTES

| | Group and Company | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Balance at 1 April 2006/2005 | **574,001** | 742,770 |
| Conversion during the year | **(29,155)** | (19,363) |
| Repurchased during the year | **–** | (170,335) |
| Effective interest for the year | **15,585** | 20,929 |
| Balance at 31 March | **560,431** | 574,001 |

**(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.

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 Note is the date falling sixty months from (and inclusive of) the date of issue of such convertible notes.

(Expressed in Hong Kong dollars)

## 30 CONVERTIBLE NOTES *(Continued)*

**(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 in 5 years after the issue date.

The Company has the right to redeem the Notes at 100% of the principal amount in amounts of $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 2007, $30 million (2006: $20 million) Original Notes were converted into 57,692,307 ordinary shares (2006: 38,461,538 ordinary shares) of the Company (note 32).

**(e)** The effective interest rate of the Original Notes and the Notes for the year ended 31 March 2007 is 4% (2006: 4%).

(Expressed in Hong Kong dollars)

## 31 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Group adopted a share option scheme (the "Scheme") pursuant to the shareholders' resolution in a general meeting on 12 April 2002, following the amendments on the Listing Rules which came into effect from September 2001.

Under the terms of the Scheme, the directors may at their discretion invite employees and directors of the Company or any of its subsidiaries and associates, to take up options to subscribe for shares of the Company. The Scheme is valid and effective for a period of ten years, ending on 11 April 2012, after which no further options will be granted. The exercise price of options is determinable by the Board and is the highest of (i) the nominal value of the shares; (ii) the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for five business days immediately preceding the date of the grant; and (iii) the closing price of the shares on the Stock Exchange on the date of the offer.

The exercise period of the options granted is determinable by the Board, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant. Pursuant to directors' written resolution dated 22 January 2007, the exercise period of the options granted has been changed to not later than 5 years from the date of grant. A nominal consideration of $1 is payable on acceptance of the grant of options. Each option gives the holder the right to subscribe for one share.

### (a) The number and weighted average exercise prices of share options are as follows:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options** | Weighted average exercise price | Number of options |
| Outstanding at 1 April 2006/2005 | **$0.620** | **191,312,000** | $0.620 | 191,312,000 |
| Lapsed | **$0.601** | **(33,100,000)** | – | – |
| At 31 March | **$0.625** | **158,212,000** | $0.620 | 191,312,000 |
| Exercisable at 31 March | **$0.625** | **158,212,000** | $0.620 | 191,312,000 |

(Expressed in Hong Kong dollars)

## 31 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

**(b) The terms of unexpired and unexercised share options at balance sheet date are as follows, whereby all options are settled by physical delivery of shares:**

| Date granted | Exercise period | Exercise price | 2007 Number | 2006 Number |
|---|---|---|---|---|
| **Options granted to directors and contracted employees** | | | | |
| 22 May 2002 | 22 May 2002 to 21 May 2007 | $0.792 | **17,356,000** | 17,356,000 |
| 22 May 2002 | 22 August 2002 to 21 May 2007 | $0.792 | **14,250,000** | 17,525,000 |
| 22 May 2002 | 22 August 2003 to 21 May 2007 | $0.792 | **14,250,000** | 17,525,000 |
| 22 May 2002 | 22 August 2004 to 21 May 2007 | $0.792 | **14,250,000** | 17,525,000 |
| 22 May 2002 | 22 August 2005 to 21 May 2007 | $0.792 | **14,250,000** | 17,525,000 |
| 31 December 2002 | 31 December 2002 to 30 December 2007 | $0.476 | **83,856,000** | 103,856,000 |
| | | | **158,212,000** | 191,312,000 |

(Expressed in Hong Kong dollars)

## 32 SHARE CAPITAL

| | 2007 Number of shares '000 | 2007 Amount $'000 | 2006 Number of shares '000 | 2006 Amount $'000 |
|---|---|---|---|---|
| ***Authorised:*** | | | | |
| Ordinary shares of $0.1 each | **5,000,000** | **500,000** | 5,000,000 | 500,000 |
| ***Issued and fully paid:*** | | | | |
| At 1 April 2006/2005 | **1,508,914** | **150,891** | 1,472,479 | 147,248 |
| Shares issued upon conversion of convertible notes (note 30) | **57,692** | **5,769** | 38,461 | 3,846 |
| Purchase of own shares (note (i)) | **(6,676)** | **(667)** | (2,026) | (203) |
| At 31 March | **1,559,930** | **155,993** | 1,508,914 | 150,891 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(Expressed in Hong Kong dollars)

## 32 SHARE CAPITAL *(Continued)*

### (i) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange 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 |
| 13 October 2006 | 20,000 | 0.415 | 0.415 | 8 |
| | 6,676,000 | | | 2,808 |

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 $667,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of $2,141,000 was charged to retained profits.

## 33 CAPITAL AND RESERVES

### (a) Group

| | 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 equity $'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 11) | – | – | – | – | – | – | – | (19,642) | (19,642) | – | (19,642) |
| Minority interest's share of dividend | – | – | – | – | – | – | – | – | – | (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 |
| Share premium on issue of shares upon conversion of convertible notes (note 32) | 3,846 | 16,388 | – | – | (890) | – | – | – | 19,344 | – | 19,344 |
| Repurchase of convertible notes | – | – | – | – | (34,182) | – | – | 34,182 | – | – | – |
| Shares repurchased (note 32) | (203) | – | 203 | – | – | – | – | (838) | (838) | – | (838) |
| Share of capital reserve of an associate | – | – | – | 72 | – | – | – | – | 72 | – | 72 |
| Share of minority interest in additional interest 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 |

(Expressed in Hong Kong dollars)

## 33 CAPITAL AND RESERVES *(Continued)*

### (a) Group *(Continued)*

| | 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 equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 year (note 11) | – | – | – | – | – | – | – | (12,533) | (12,533) | – | (12,533) |
| Minority interest's share of dividend | – | – | – | – | – | – | – | – | – | (5,853) | (5,853) |
| Unrealised gain on revaluation of available-for-sale securities | – | – | – | – | – | 68 | – | – | 68 | – | 68 |
| Share premium on issue of shares upon conversion of convertible notes (note 32) | 5,769 | 24,694 | – | – | (1,336) | – | – | – | 29,127 | – | 29,127 |
| Shares repurchased (note 32) | (667) | – | 667 | – | – | – | – | (2,808) | (2,808) | – | (2,808) |
| Share of minority interest on disposal of subsidiaries | – | – | – | – | – | – | – | – | – | 1,606 | 1,606 |
| Exchange differences arising on consolidation | – | – | – | – | – | – | 41,012 | – | 41,012 | 2,038 | 43,050 |
| Profit for the year | – | – | – | – | – | – | – | 134,333 | 134,333 | 98,906 | 233,239 |
| At 31 March 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 |

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on or derived from acquisition or disposal of subsidiaries and associates prior to 1 April 2004 and the foreign currency translation in notes 1(e) and (w) respectively.

Other reserve comprises of the value of unexercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes in note 1(o).

The investment revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the gain or loss on revaluation and disposal of available-for-sale securities in note 1(f).

(Expressed in Hong Kong dollars)

## 33 CAPITAL AND RESERVES *(Continued)*

### (b) Company

| | Share capital $'000 | Share premium $'000 | Capital redemption reserve $'000 | Other reserve $'000 | Investment revaluation reserve $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2005 | 147,248 | 1,138,980 | 151 | 112,668 | – | 356,180 | 1,755,227 |
| Dividend approved and paid during the year | – | – | – | – | – | (19,642) | (19,642) |
| Unrealised loss on revaluation of available-for-sale securities | – | – | – | – | (7,506) | – | (7,506) |
| Impairment loss realised | – | – | – | – | 7,506 | – | 7,506 |
| Share premium on issue of shares upon conversion of convertible notes | 3,846 | 16,388 | – | (890) | – | – | 19,344 |
| Repurchase of convertible notes | – | – | – | (34,182) | – | 34,182 | – |
| Shares repurchased | (203) | – | 203 | – | – | (838) | (838) |
| Profit for the year | – | – | – | – | – | 78,346 | 78,346 |
| At 31 March 2006 | 150,891 | 1,155,368 | 354 | 77,596 | – | 448,228 | 1,832,437 |
| At 1 April 2006 | 150,891 | 1,155,368 | 354 | 77,596 | – | 448,228 | 1,832,437 |
| Dividend approved and paid during the year | – | – | – | – | – | (12,533) | (12,533) |
| Unrealised gain on revaluation of available-for-sale securities | – | – | – | – | 68 | – | 68 |
| Share premium on issue of shares upon conversion of convertible notes | 5,769 | 24,694 | – | (1,336) | – | – | 29,127 |
| Shares repurchased | (667) | – | 667 | – | – | (2,808) | (2,808) |
| Loss for the year | – | – | – | – | – | (26,945) | (26,945) |
| At 31 March 2007 | 155,993 | 1,180,062 | 1,021 | 76,260 | 68 | 405,942 | 1,819,346 |

At 31 March 2007, the amount of distributable reserves of the Company amounted to $397,285,000 (2006: $448,228,000).

## 34 DEFERRED TAXATION

### (a) Deferred tax assets and liabilities recognised:

#### *(i) Group*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | Depreciation allowances in excess of related depreciation $'000 | Deferred revenue $'000 | Provision for obsolete inventories $'000 | Impairment losses for bad and doubtful debts $'000 | Reversal of overprovision and accruals $'000 | Deferred expenses $'000 | Fair value changes on trading securities $'000 | Tax losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| *Deferred tax arising from:* | | | | | | | | | |
| At 1 April 2005 | 713 | (581) | (1,908) | (2,661) | 127 | – | – | (206) | (4,516) |
| Charged/(credited) to consolidated income statement | 415 | (410) | 931 | 141 | 3 | – | – | (70) | 1,010 |
| At 31 March 2006 | 1,128 | (991) | (977) | (2,520) | 130 | – | – | (276) | (3,506) |
| At 1 April 2006 | 1,128 | (991) | (977) | (2,520) | 130 | – | – | (276) | (3,506) |
| Charged/(credited) to consolidated income statement | 247 | 3 | (3,272) | 28 | 7 | (30,845) | 31,113 | 3 | (2,716) |
| At 31 March 2007 | 1,375 | (988) | (4,249) | (2,492) | 137 | (30,845) | 31,113 | (273) | (6,222) |

#### *(ii) Company*

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

| | Depreciation allowances in excess of related depreciation $'000 | Tax losses $'000 | Total $'000 |
|---|---|---|---|
| At 1 April 2005 | 28 | (28) | – |
| Charged/(credited) to income statement | 35 | (35) | – |
| At 31 March 2006 | 63 | (63) | – |
| At 1 April 2006 | 63 | (63) | – |
| (Credited)/charged to income statement | (36) | 36 | – |
| At 31 March 2007 | 27 | (27) | – |

## 34 DEFERRED TAXATION *(Continued)*

### (a) Deferred tax assets and liabilities recognised: *(Continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Net deferred tax assets recognised on the consolidated balance sheet | **(7,241)** | (4,358) | **–** | – |
| Net deferred tax liabilities recognised on the consolidated balance sheet | **1,019** | 852 | **–** | – |
| | **(6,222)** | (3,506) | **–** | – |

### (b) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of unused tax losses of $31,021,000 (2006: $34,038,000) and deductible temporary differences of $36,847,000 (2006: $32,219,000) as it is not probable that there will be sufficient taxable profits available against which the unused tax losses and deductible temporary differences can be utilised. The tax losses do not expire under current tax legislation.

## 35 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, 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.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

## 35 FINANCIAL INSTRUMENTS *(Continued)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's Board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### (c) Interest rate risk

The Group has interest rate risk as certain interest-bearing borrowings are on a variable rate basis. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in notes 27, 28 and 30. The Group does not expect any changes in interest rates which might materially affect the Group's result of operations.

During the year, the Group and the Company had not entered into any interest rate swap contracts.

### (d) Foreign currency risk

Almost all the Group's operating activities are carried out in the PRC with most of the transactions denominated in Renminbi. The Group is exposed to foreign currency risk arising from the exposure of Renminbi against Hong Kong dollars as a result of its investments in the PRC and certain of the general and administrative expenses are settled in Hong Kong dollars. In addition, Renminbi is not freely convertible into foreign currencies and the conversion of Renminbi into foreign currencies is subject to rules and regulations of the foreign exchange control promulgated by the PRC government. The Group considers there is no material foreign currency risk and the Group did not enter into any derivative contracts to hedge its foreign currency risk.

## 35 FINANCIAL INSTRUMENTS *(Continued)*

### (e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2007 and 2006 except as follows:

| | 2007 Carrying amount $'000 | 2007 Fair value $'000 | 2006 Carrying amount $'000 | 2006 Fair value $'000 |
|---|---|---|---|---|
| ***(i) Group and Company*** | | | | |
| Convertible notes | **560,431** | **545,034** | 574,001 | 530,018 |

***(ii) Amounts due from subsidiaries***

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to quantify their fair values and they are stated at cost.

***(iii) Unlisted investments***

Certain investments of the Group of $42,539,000 (2006: $42,359,000) and of the Company of $39,070,000 (2006: $39,070,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are recognised at cost less impairment losses.

### (f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in note 35(e) above.

***Convertible notes***

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(Expressed in Hong Kong dollars)

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

(i) During the year ended 31 March 2006, the Group has taken over the founders' equity interest in Beijing East.net Information Technology Co., Ltd ("East.net") as the founders had defaulted the settlement of the loan and the Group's equity interest in East.net increased from 49% at 31 March 2005 to 100% at 31 March 2006. The Group has subsequently disposed all of its entire interest in East.net during the year ended 31 March 2007. In addition, the Group acquired an additional 4% equity interest in Shanghai Stone Hu Guang Technology Limited ("Shanghai Hu Guang") from the minority shareholders of Shanghai Hu Guang at a consideration of RMB1. From the respective dates of acquisition to 31 March 2006, Shanghai Hu Guang and East.net contributed net profit of $371,000 and net loss of $794,000 respectively to the consolidated net profit attributable to equity shareholders of the Company for the year. If the acquisition of the additional 4% equity interest in Shanghai Hu Guang and the take over of the equity interest in East.net had occurred on 1 April 2005, the Group's turnover would had been $2,042,583,000 and net profit attributable to equity shareholders of the Company would had been $61,069,000.

| | **2007** | 2006 |
|---|---|---|
| | **$'000** | $'000 |
| Net assets acquired: | | |
| Property, plant and equipment | – | 1,096 |
| Trade and other receivables | – | 257 |
| Cash and cash equivalents | – | 67 |
| Trade and other payables | – | (694) |
| Minority shareholders' interests | – | 415 |
| | – | 1,141 |
| Excess of interest in net fair value of the subsidiaries' identifiable assets and liabilities over cost of business combination | – | (1,141) |
| Total consideration | – | – |
| Satisfied by: | | |
| Cash consideration | – | – |

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (a) Acquisition of subsidiaries *(Continued)*

During the year ended 31 March 2006, the excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of East.net and Shanghai Hu Guang over cost of acquisition amounting to $1,141,000 was recognised as "Non-operating income" in the consolidated income statement.

### (b) Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries

| | **2007** | 2006 |
|---|---|---|
| | **$'000** | $'000 |
| Cash and cash equivalents acquired | **–** | 67 |
| Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries | **–** | 67 |

(Expressed in Hong Kong dollars)

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (c) Disposal of interest in subsidiaries

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | **3,601** | 533 |
| Interest in associates | **579** | – |
| Other financial assets | **–** | (930) |
| Inventories | **2,740** | 623 |
| Trade and other receivables | **9,313** | 5,426 |
| Cash and cash equivalents | **5,062** | 9,849 |
| Trade and other payables | **(18,971)** | (8,077) |
| Minority shareholders' interests | **1,606** | (2,378) |
| | **3,930** | 5,046 |
| Gain/(loss) on disposal | **6,536** | (2,059) |
| | **10,466** | 2,987 |
| Satisfied by: | | |
| Cash consideration | **7,423** | 2,987 |
| Trade and other receivables | **3,043** | – |
| | **10,466** | 2,987 |

### (d) Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of interest in subsidiaries

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Cash consideration received | **7,423** | 3,017 |
| Cash and cash equivalents disposed of | **(5,062)** | (9,849) |
| Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of interest in subsidiaries | **2,361** | (6,832) |

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (e) Major non-cash transactions

During the year ended 31 March 2006, the Group accepted the offer from CCMG for the issuance and allotment of new ordinary shares of CCMG at a subscription price of US$2.509 per ordinary share, credited as fully paid, in satisfaction of the shareholders' loan of approximately US$22 million owed by CCMG to the Group. Accordingly, the Group's interest in CCMG of $185,296,000 at 31 March 2005 has been reclassified from interest in a jointly controlled entity to interest in associates. In addition, the Group acquired 40% interest in MTY at a consideration of US$19.2 million (equivalent to approximately $149,760,000) by cash (note 20(a)). A deposit of $52,216,000 for this transaction was included in "Trade and other receivables" at 31 March 2005 and had been reclassified to interest in associates at 31 March 2006.

## 37 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at balance sheet date not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Contracted for | **57,684** | 233 | **–** | – |
| Authorised but not contracted for | **2,687** | – | **–** | – |
| | **60,371** | 233 | **–** | – |

### (b) Operating lease commitments

At balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **13,167** | 13,526 | **1,362** | 1,256 |
| After 1 year but within 5 years | **6,322** | 9,368 | **363** | – |
| After 5 years | **–** | 13 | **–** | – |
| | **19,489** | 22,907 | **1,725** | 1,256 |

(Expressed in Hong Kong dollars)

## 38 CONTINGENT LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Guarantees given to banks in respect of credit facilities granted to subsidiaries | **–** | – | **55,000** | 100,000 |
| Guarantee given to a bank to secure banking facilities of an associate | **40,580** | – | **–** | – |
| | **40,580** | – | **55,000** | 100,000 |

The Company has not recognised any deferred income for the guarantees given in respect of credit facilities granted to subsidiaries as their fair value cannot be reliably measured and their transaction price was $Nil.

## 39 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:

| | | **2007** | 2006 |
|---|---|---|---|
| | | **$'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 | **1,683** | 3,725 |
| | Purchase of traded products and component parts | **3,307** | 4,815 |
| | Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services (note (i)) | **3,500** | 3,382 |
| | Rental paid for staff quarters | **978** | 970 |
| | Rental income on properties (note (ii)) | **822** | 783 |
| | Handling fee (note (iii)) | **41** | 46 |
| **(b)** | Transactions with associates of the Group: | | |
| | – Purchase of traded products and component parts | **3,428** | 2,549 |

(Expressed in Hong Kong dollars)

## 39 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

**(c)** One of the subsidiaries of SGC ("SGC Company") entered into an agreement with a non-wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company. A profit of RMB550,000 (equivalent to approximately $531,000) was shared by the Group in this arrangement for the year ended 31 March 2006. Such arrangement was terminated with effect from 1 April 2006.

**(d) Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Short-term employee benefits | 16,523 | 6,714 |
| Post-employment benefits | 92 | 86 |
| Equity compensation benefits | – | – |
| | 16,615 | 6,800 |

Total remuneration is included in "staff costs" (see note 6(b)).

Notes:

(i) On 24 September 2003, the Company entered into a management contract whereby SGC agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed $3,500,000 per annum for a term of five years commencing from 23 July 2003.

(ii) A subsidiary of the Group acquired the Stone Building situated in Beijing from SGC during 1996 and leased various units of the Stone Building to SGC for a lease term of three years commencing from 1 August 1996. The lease term has been renewed on an annual basis thereafter. The rental income received for the year ended 31 March 2007 was calculated at a daily rate of RMB6 per square metre which was considered to be not materially different from the then market rental.

(iii) In March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") entered into an agreement with SGC, pursuant to which Beijing New Technology appointed SGC to act as its agent to deal with all import procedural matters during the year 1999. The agreement may be renewed on an annual basis thereafter. A handling fee was payable to SGC pursuant to the agreement and was calculated at 1.3% of the cost of goods shipped which was considered to be not materially different from the then market price.

(Expressed in Hong Kong dollars)

## 40 POST BALANCE SHEET EVENTS

(a) Pursuant to the sale and purchase agreement entered into among the Group, Yearbase International Limited (the "Vendor") and Mr Chen Zhi Fang (the "Guarantor") for the acquisition of Cayman MTY by the Group in April 2005, the Vendor and the Guarantor provided a guarantee to the Group that the audited consolidated net profit after taxation of Cayman MTY and its subsidiaries ("MTY Group") for each of the years ended 31 December 2005 and 2006 was not less than US$8,100,000 respectively. As the audited consolidated net profit after taxation of MTY Group for the year ended 31 December 2006 was less than the guaranteed amount of US$8,100,000, the Group will be compensated by additional interest in Cayman MTY subject to the final conclusion of the terms of the supplemental deed for such compensation among the parties concerned.

(b) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

## 41 COMPARATIVE FIGURES

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

## 42 PARENT AND ULTIMATE CONTROLLING PARTY

At 31 March 2007, the directors consider the parent and ultimate controlling party of the Group to be Beijing Stone Investment Company Limited and the Beijing Stone Investment Co., Ltd Employees' Shareholding Society respectively, which are established in the PRC. These entities do not produce financial statements available for public use.

## 43 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

### Key sources of estimation uncertainty

Notes 17 and 35 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

– ***Valuation of investment properties***

Investment properties are included in the balance sheet at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

– ***Assessment of useful economic lives for depreciation of fixed assets***

In assessing the estimated useful lives of fixed assets, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgment based on the experience of the Group.

Management reviews the useful lives of fixed assets annually, and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

## 43 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

– ***Assessment of impairment of non-current assets***

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

– ***Recognition of deferred tax assets***

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgment, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

## 44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2007 and which have not been adopted in these financial statements.

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 results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 7 | Financial instruments: disclosures | 1 January 2007 |
| Amendment to HKAS 1 | Presentation of financial statements: capital disclosures | 1 January 2007 |
| HKFRS 8 | Operating segments | 1 January 2009 |

(Expressed in Hong Kong dollars)

## 45 SUBSIDIARIES

Details of the principal subsidiaries, which materially affected the results or assets of the Group at 31 March 2007, are as follows:

| Name of company | Place of incorporation/ establishment and operation | Issued and fully paid capital/ registered capital | Attributable interest | Principal activities |
|---|---|---|---|---|
| Stone Advance Technology Limited | Hong Kong | $40,000,000 | 100% | Sourcing of electronic and office equipment, and component parts |
| Prexton Investment Limited | Hong Kong | $10,000 | 100% | Property investment |
| Key Success Trading Limited | Hong Kong | $2 | 100% | Property investment |
| Gold Vantage Investments Limited | Hong Kong | $2 | 100% | Property investment |
| Shanghai GoldPartner Biotech Co., Ltd.* | PRC | $100,000,000 | 75% | Manufacture, sale and distribution of healthcare products |
| Beijing Stone Electronic Technology Co., Ltd. | PRC | US$21,300,000 | 100% | Investment holding |
| Beijing Stone New Technology Industrial Co., Ltd.* | PRC | RMB175,000,000 | 100% | Investment holding and distribution and sale of electronic and electrical products and office equipment |

(Expressed in Hong Kong dollars)

## 45 SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ establishment and operation | Issued and fully paid capital/ registered capital | Attributable interest | Principal activities |
|---|---|---|---|---|
| Beijing Stone Industrial Control Technology Company Limited* | PRC | RMB30,000,000 | 61.67% | Sale of industrial controllers products |
| Beijing Stone Computer Co., Ltd.* | PRC | RMB50,000,000 | 51% | Manufacture and distribution of computers and network components |
| Sun Stone Media Group Limited* | BVI | $8 | ##51% | Investment holding |
| Tianjin Stone Computer Equipment Corporation Limited* | PRC | US$800,000 | 75% | Manufacture and sale of fluorescent electronic ballasts |
| Stone Online Sci & Tech Co., Ltd. (Beijing)* | PRC | RMB22,500,000 | 80% | Investment holding |
| Guangdong Sunnet Cafe Development Co., Ltd | PRC | RMB20,200,000 | 51% | Operation of internet cafe chains |

* Indirect holding.

\## This subsidiary is 100% owned by Sun Stone New Media Limited in which the Company has 51% direct interest.

(Expressed in Hong Kong dollars)

## 46 ASSOCIATES

Details of the principal associates, which materially affected the results or assets of the Group at 31 March 2007, are as follows:

| Name of company | Place of establishment and operation | Registered capital | Attributable interest | Principal activities |
|---|---|---|---|---|
| Beijing Stone Zhi Neng Technology Company* | PRC | RMB16,000,000 | 23.5% | Provision of terminal network system and mobile messaging services system |
| Beijing Stone Digital Technology Co., Ltd.* | PRC | RMB50,000,000 | 30% | Provision of electronic commerce service |
| China Cable Media Group Limited* | Cayman Islands | US$29,376,733 | 34.77% | Investment holding |
| Censoft Company Limited* | PRC | RMB30,000,000 | 30% | Development and distribution of application software |
| Me To You Holdings Limited* | Cayman Islands | US$50,000 | 40% | Investment holding |
| Huaxu Golden Card Co., Ltd.* | PRC | RMB56,018,552 | 44.41% | Research & development, manufacture and sales of IC card and card reader |
| Beijing Stone Intelligent Transportation System Integration Co., Ltd.* | PRC | RMB10,000,000 | 48% | Installation of intelligent transportation facilities and communication |

* Indirect holding.

# Five Year Financial Summary

(Expressed in Hong Kong dollars)

| | 2002 (restated) $'000 | 2003 (restated) $'000 | 2004/05 (restated) $'000 | 2005/06 $'000 | **2006/07 $'000** |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | 995,966 | 1,015,277 | 2,361,507 | 2,035,467 | **2,375,541** |
| Operating profit | 203,922 | 1,722,466 | 259,017 | 78,093 | **311,045** |
| Share of profits less losses of associates | 930 | (15,183) | (16,391) | 5,547 | **(12,463)** |
| Share of loss of a jointly controlled entity | – | – | (1,420) | (5,101) | **–** |
| Profit before taxation | 204,852 | 1,707,283 | 241,206 | 78,539 | **298,582** |
| Income tax | (1,157) | (583) | (3,126) | (18,522) | **(65,343)** |
| Profit for the year/period | 203,695 | 1,706,700 | 238,080 | 60,017 | **233,239** |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 36,646 | 801,186 | 160,426 | 63,908 | **134,333** |
| Minority interests | 167,049 | 905,514 | 77,654 | (3,891) | **98,906** |
| Profit for the year/period | 203,695 | 1,706,700 | 238,080 | 60,017 | **233,239** |
| **Assets and Liabilities** | | | | | |
| Investment properties, property, plant and equipment, goodwill, other intangible assets, and deferred tax assets | 149,068 | 187,825 | 1,365,438 | 1,376,864 | **1,416,147** |
| Interest in associates | 179,651 | 169,956 | 53,465 | 388,468 | **388,142** |
| Interest in a jointly controlled entity | – | – | 185,296 | – | **–** |
| Other financial assets | 66,448 | 43,042 | 157,165 | 44,046 | **44,294** |
| Net current assets | 858,485 | 2,470,781 | 1,523,018 | 1,321,329 | **1,558,992** |
| | 1,253,652 | 2,871,604 | 3,284,382 | 3,130,707 | **3,407,575** |
| Long term liabilities | (12,000) | (214,000) | (832,955) | (574,001) | **(564,806)** |
| Deferred tax liabilities | – | – | (507) | (852) | **(1,019)** |
| | 1,241,652 | 2,657,604 | 2,450,920 | 2,555,854 | **2,841,750** |

# Group Properties

## 1 MAJOR PROPERTIES HELD FOR INVESTMENT

| Location | Existing use | Term of lease |
|---|---|---|
| Stone Building,<br>Haidian South Avenue,<br>Haidian District,<br>Beijing, the PRC | Office | Medium |
| 10/F, Haven Commercial Building,<br>Nos. 6-8 Tsing Fung Street,<br>North Point, Hong Kong | Office | Long |
| Unit Nos. 821 and 822, 8th level of<br>Bright China Chang An Building,<br>7 Jianguomennei Avenue,<br>Dong Cheng District,<br>Beijing, the PRC | Office | Medium |
| Unit 2201-2223,<br>20th level of Zhongguancun<br>High-Tech Trade Centre,<br>Beijing, the PRC | Office | Medium |
| Office Block No. 4,<br>Zone 6, Technology Park Headquarter,<br>188 Nanhuanxi Road,<br>Fengtai District,<br>Beijing, the PRC | Office | Medium |

## 2 PROPERTIES HELD FOR SALE

| Location | Existing use | Gross floor area | Group's interest |
|---|---|---|---|
| The Whole Floor of 5th Floor,<br>Dalian International Trade Centre,<br>No 201, 4th Road,<br>Huanghaixi Road,<br>Dalian Free Trade Zone,<br>Dalian City<br>Liaoning Province<br>the PRC | Office | 3,987m$^2$ | 100% |