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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Stone Group Holdings Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**STONE GROUP HOLDINGS LIMITED**

**四通控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 409)**

**DISCLOSEABLE TRANSACTION  
EXERCISE OF CONVERSION RIGHT AND  
SUBSCRIPTION OF CONVERTIBLE PREFERENCE SHARES IN  
CHINA CABLE MEDIA GROUP LIMITED**

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Agreement”	the agreement dated 18 August 2005 entered into between the Company and CCMG in relation to the grant of the conversion right by CCMG to the Company for the conversion of the Stone Bridge Loans and the Unpaid Interest
“Board”	the board of Directors
“Business Day(s)”	any day(s) other than a Saturday, Sunday on which banks in Hong Kong are generally open for counter business
“CCMG”	China Cable Media Group Limited, a company incorporated under the laws of the Cayman Islands
“CCN”	China Cable Network Co., Ltd. (中廣有線信息網絡有限公司), a company established in the PRC
“Closing Date”	31 May 2007 or such other date as the parties to the Share Purchase Agreement mutually agree in writing that falls within five Business Days of the date on which all of the conditions precedent to the Share Purchase Agreement have been fulfilled but in any event, no later than 31 October 2007
“Company”	Stone Group Holdings Limited, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Share Purchase Agreement
“Conversion”	the exercise of the conversion right granted by CCMG to the Company for the conversion of the Stone Bridge Loans and the Unpaid Interest into new Preference Shares of CCMG allotted to Media Sky at a conversion price of approximately US\$2.22 per Preference Share
“Consideration”	the consideration for the Share Subscription of US\$7.0 million pursuant to the Share Purchase Agreement

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company
“Financial Investor”	two corporations in the same group organised under the laws of the Cayman Islands, which, together with its beneficial owner, are third parties independent of the Group and connected persons of the Group
“Group”	the Company and its subsidiaries
“HK GAAP”	the Statements of Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Investors Subscriptions”	the subscriptions pursuant to agreements dated 18 April 2007 entered into between CCMG and the Financial Investor, the New Investor I and the New Investor II respectively for the subscription of 5,400,001, 4,050,000 and 450,000 new Preference Shares respectively at the subscription price of approximately US\$2.22 per Preference Share
“Korea”	Republic of Korea
“Latest Practicable Date”	11 May 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Media Sky”	Media Sky Developments Limited, a company incorporated in the British Virgin Islands which is a wholly owned subsidiary of the Company
“New Investor I”	an individual residing in Korea, who is third party independent of the Group and connected persons of the Group

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## DEFINITIONS

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“New Investor II”	a corporation established under the laws of Korea, which, together with its beneficial owner, are third parties independent of the Group and connected persons of the Group
“Offshore Stone” Bridge Loan”	a bridge loan in the aggregate principal amount of US\$3,000,000 (equivalent to approximately HK\$23,400,000) due to the Company
“Onshore Stone” Bridge Loan”	a bridge loan in the aggregate principal amount of RMB30,000,000 (equivalent to approximately HK\$30,000,000) due to the Company
“Ordinary Share(s)”	the ordinary share(s) of US\$1 each in the ordinary share capital of CCMG
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong and the Macau Special Administrative Region and Taiwan
“PRC Entity”	a limited liability company organized under the laws of the PRC, which, together with its beneficial owner, are third parties independent of the Group and connected persons of the Group
“PRC Investment” Company”	Shanghai Zhongguang Stone Media Investment Co., Ltd. (上海中廣四通傳媒投資有限公司), a company established under the PRC laws with limited liability, which is owned as to 44.35%, 15.25% and 40.40% by three PRC individuals nominated by Media Sky, Suntop and the Financial Investor respectively
“Preference Share(s)”	Series A Convertible Preference Share(s) of US\$1 each in the preference share capital of CCMG
“SARFT”	State Administration of Radio, Film and Television of the PRC (國家廣播電影電視總局)
“Second Offshore Stone Bridge Loan”	a bridge loan in the aggregate principal amount of US\$3,600,000 (equivalent to approximately HK\$28.1 million) due to the Company

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## DEFINITIONS

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“Second Supplemental Agreement”	the agreement dated 30 March 2007 entered into between the Company and CCMG in supplemental to the Agreement to revise the conversion price from US\$2.50 to approximately US\$2.22
“SGC”	Stone Group Corporation (四通集團公司), a company established in the PRC which owns approximately 5.99% shareholding of the Company
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholders”	holders of the Shares
“Share Purchase Agreement”	the share purchase agreement dated 18 April 2007 entered into among Media Sky, CCMG and the WFOE Companies in relation to the subscription of 3,150,000 Preference Shares of CCMG by Media Sky
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stone Bridge Loans”	the Offshore Stone Bridge Loan and the Second Offshore Stone Bridge Loan
“Share Subscription”	the subscription of 3,150,000 Preference Shares by Media Sky pursuant to the Share Purchase Agreement
“Subscription Price”	the subscription price of approximately US\$2.22 per Preference Share pursuant to the Share Purchase Agreement
“Suntop”	Suntop Investments Limited, a company incorporated in Samoa, which, together with its beneficial owner, are third parties independent of the Group and connected persons of the Group
“Supplemental Agreement”	the agreement dated 27 April 2006 entered into between the Company and CCMG in supplemental to the Agreement to convert the Onshore Stone Bridge Loan in the principal amount of RMB30,000,000 into the Second Offshore Stone Bridge Loan in the principal amount of US\$3,600,000

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## DEFINITIONS

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“System Operator”	any entity whose principal business involves the distribution and transmission of audio and/or visual programs to subscribers within the PRC by means of a network of optical fibers and/or coaxial cables
“Unpaid Interest”	the accrued and unpaid interest on the Offshore Stone Bridge Loan and the Onshore Stone Bridge Loan in the sum of US\$299,441 (equivalent to approximately HK\$2,335,640) as at 30 June 2005
“WFOE 1”	Beijing Stone Cable Media Science & Technology Co., Ltd. (北京四通有線傳媒科技有限公司), a wholly foreign owned enterprise established in the PRC which is wholly owned by CCMG
“WFOE 2”	Beijing Zhongguang Yongfeng Cable Television Technology Co., Ltd. (北京中廣永豐有線電視技術有限公司), a wholly foreign owned enterprise established in the PRC which is wholly owned by CCMG
“WFOE Consulting Company”	Beijing Stone Zhongguang Media Science & Technology Co., Ltd. (北京四通中廣傳媒科技有限公司), a wholly foreign owned enterprise established in the PRC which is wholly owned by CCMG
“WFOE Companies”	WFOE Consulting Company together with WFOE 1 and WFOE 2
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*Note:* For the purpose of this circular, unless otherwise specified, amounts denominated in Renminbi have been translated for the purpose of illustration only into Hong Kong dollars at the exchange rate of RMB1.00 = HK\$1.00, and amounts denominated in US dollars have been translated for the purpose of illustration only into Hong Kong dollars at the exchange rate of US\$1.00 = HK\$7.80.

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## LETTER FROM THE BOARD

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### STONE GROUP HOLDINGS LIMITED

四通控股有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 409)**

*Board of Directors:*

Duan Yongji (*Chairman and Chief Executive Officer*)

Shi Yuzhu

Shen Guojun

Chen Xiaotao

Zhang Disheng

Liu Wei

Ng Ming Wah, Charles\*

Andrew Y. Yan\*

Liu Ji\*

Liu Jipeng\*

*Registered and principal office:*

27th Floor

K. Wah Centre

191 Java Road

North Point

Hong Kong

\* *independent non-executive Directors*

17 May 2007

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION  
EXERCISE OF CONVERSION RIGHT AND  
SUBSCRIPTION OF CONVERTIBLE PREFERENCE SHARES IN  
CHINA CABLE MEDIA GROUP LIMITED**

**INTRODUCTION**

On 25 April 2007, the Company announced that on 17 April 2007 the Company served a conversion notice to CCMG to exercise the right to convert the Stone Bridge Loans and the Unpaid Interest in the total amount of US\$6,899,441 (equivalent to approximately HK\$53.8 million) into 3,104,749 Preference Shares of CCMG at the conversion price of approximately US\$2.22 per Preference Share.



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## LETTER FROM THE BOARD

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On 25 April 2007, the company announced that on 18 April 2007, Media Sky, a wholly owned subsidiary of the Company, entered into the Share Purchase Agreement with CCMG and the WFOE Companies pursuant to which Media Sky conditionally agreed to subscribe for and CCMG conditionally agreed to allot and issue 3,150,000 Preference Shares at a consideration of US\$7.0 million (equivalent to approximately HK\$54.6 million), representing a subscription price of approximately US\$2.22 per Preference Share.

Given that the aggregate consideration ratio for the Conversion and the Share Subscription is more than 5% but less than 25%, the Conversion and the Share Subscription together constitute a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules.

The purpose of this circular is to provide you with further details in relation to, among other things, the Conversion and the Share Subscription.

### THE CONVERSION

Reference is made to the announcement of the Company dated 24 August 2005 whereby the Company and CCMG entered into the Agreement on 18 August 2005, in relation to, among other things, the grant of the conversion right by CCMG to the Company for the conversion of the Stone Bridge Loans and the Unpaid Interest into Preference Shares of CCMG.

On 17 April 2007, the Company served a conversion notice to CCMG to exercise the right to convert the Stone Bridge Loans and the Unpaid Interest in the total amount of US\$6,899,441 (equivalent to approximately HK\$53.8 million) into 3,104,749 Preference Shares of CCMG at the conversion price of approximately US\$2.22 per Preference Share. The Conversion was completed on 17 April 2007.

Prior to the Conversion, CCMG is owned as to approximately 34.77% by Media Sky. Upon the Conversion, CCMG is owned as to approximately 40.68% by Media Sky.

The right to convert the Stone Bridge Loans and the Unpaid Interest is pursuant to the Agreement dated 18 August 2005 made between the Company and CCMG, as supplemented by the Supplemental Agreement and the Second Supplemental Agreement, the details of the conversion rights regarding the Stone Bridge Loans and the Unpaid Interest are summarized below.

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## LETTER FROM THE BOARD

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### **The Stone Bridge Loans and Unpaid Interest**

As announced by the Company on 24 August 2005, the Company and CCMG entered into the Agreement dated 18 August 2005 in relation to, among other things, the grant of the conversion right to the Company for converting the Offshore Stone Bridge Loan of US\$3,000,000, the Onshore Stone Bridge Loan of RMB30,000,000 and the Unpaid Interest of US\$299,441 into 2,759,776 new Preference Shares of CCMG at a conversion price of US\$2.50 (equivalent to approximately HK\$19.50) per Preference Share.

Such conversion right is exercisable at any time during the period commencing on the date of the Agreement and ending on the expiry of five years from the date of the Agreement at the sole discretion of the Company.

Pursuant to the Supplemental Agreement dated 27 April 2006 entered into between the Company and CCMG, the Onshore Stone Bridge Loan in the principal amount of RMB30,000,000 was converted into the Second Offshore Stone Bridge Loan in the principal amount of US\$3,600,000, and the Stone Bridge Loans amounted to US\$6,600,000.

Pursuant to the Second Supplemental Agreement dated 30 March 2007 entered into between the Company and CCMG, the conversion price was revised from US\$2.50 (equivalent to approximately HK\$19.50) to approximately US\$2.22 (equivalent to approximately HK\$17.32) which was determined after arm's length negotiation between the Group and CCMG with reference to the proposed subscription price of approximately US\$2.22 (equivalent to approximately HK\$17.32) of the Investors Subscriptions. Pursuant to the Second Supplemental Agreement, the Stone Bridge Loans and the Unpaid Interest in the total amount of US\$6,899,441 could be converted into 3,104,749 Preference Shares of CCMG at the conversion price of approximately US\$2.22 per Preference Share.

For information purpose, prior to the Conversion, CCMG was indebted to the Company as to the Offshore Stone Bridge Loan of US\$3,000,000, the Second Offshore Stone Bridge Loan of US\$3,600,000 and the Unpaid Interest of US\$299,441. The interest accrued on the Stone Bridge Loans from 1 July 2005 to 31 December 2006 is US\$1,191,255 (equivalent to approximately HK\$9,291,789), which was waived by the Company upon the Conversion pursuant to the term of the Agreement. Upon completion of the Conversion, CCMG will no longer be indebted to the Company.

The Directors having taken into account that (i) the conversion right granted pursuant to the Agreement allows the Group the opportunity to further increase its exposure in CCN in the future as set out in the circular of the Company dated 14 September 2005 and (ii) the development of

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## LETTER FROM THE BOARD

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CCN's cable television business at that stage which required significant capital investment, considered that the terms of the Agreement (including the waiver of interest accrued from 1 July 2005 up to the date of the Conversion) were fair and reasonable and that the Agreement was in the interests of the Company and the Shareholders as a whole.

### **THE SHARE PURCHASE AGREEMENT**

#### **Date**

18 April 2007

#### **Parties**

The Issuer: CCMG

The Subscriber: Media Sky, a wholly owned subsidiary of the Company

The WFOE Companies are also parties to the Share Purchase Agreement to undertake the use of the Consideration and give warranties on CCMG's group of companies.

#### **Asset to be acquired**

Media Sky conditionally agreed to subscribe and CCMG conditionally agreed to allot and issue 3,150,000 Preference Shares at the consideration of US\$7.0 million (equivalent to approximately HK\$54.6 million), representing the subscription price of approximately US\$2.22 (equivalent to approximately HK\$17.32) per Preference Share.

As at the Latest Practicable Date, CCMG is owned as to approximately 40.68% by Media Sky, which included the Preference Shares issued pursuant to the Conversion.

#### **Consideration**

The Subscription Price was determined after arm's length negotiations between the Company and CCMG and after taking into consideration (i) valuation of other media operators listed on the Stock Exchange and overseas; (ii) the prospects of CCMG and the cable television industry in the PRC and; (iii) the subscription price of the Investors Subscriptions. The Directors therefore consider that the Subscription Price which represents a premium of approximately 21.3% over the net assets value per share of CCMG upon completion of the Conversion, the Share Subscription and the Investors Subscriptions, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Consideration is payable by the Company to CCMG in cash upon the Completion, which would be financed by internal resources of the Group.

### **Use of Consideration**

Under the Share Purchase Agreement, CCMG shall use the Consideration for the acquisition of further equity interest in CCN and proposed acquisition of equity interest in the PRC Entity, provided that a portion of such Consideration may be retained for working capital purposes by CCMG if approved by the board of directors of CCMG in accordance with CCMG's budget. CCMG and the WFOE Companies shall cause CCN and (if the proposed acquisition is eventually entered into) the PRC Entity to use such proceeds only for the purpose of acquiring additional System Operator targets, capital expenditures and working capital.

### **Conditions precedent**

The Share Purchase Agreement is subject to, among other things, if required, all other necessary approvals or consents required by the parties for the entering into the Share Purchase Agreement and the transactions contemplated in or incidental to the Share Purchase Agreement having been obtained under the applicable laws and regulations and the Listing Rules.

The Share Purchase Agreement shall void and the transactions contemplated thereby shall be abandoned if all of the above conditions are not fulfilled or waived by the parties to the Share Purchase Agreement on or before the Closing Date or such other date as the parties may agree in writing, and the parties to the Share Purchase Agreement shall not have any obligations and liabilities thereunder.

As at the Latest Practicable Date, the board of directors and shareholders of CCMG have approved the entry by CCMG into the Share Purchase Agreement.

### **INFORMATION ON CCMG**

CCMG was incorporated in the Cayman Islands with limited liability on 24 November 2003. As at the Latest Practicable Date, CCMG has not conducted any business since its incorporation other than investment holdings of the WFOE Companies and the issued ordinary share capital of CCMG is US\$15,008,955 divided into 15,008,955 ordinary shares of US\$1 each, while the existing issued preference share capital of CCMG is US\$19,268,501 divided into 19,268,501 Preference Shares of US\$1 each.

The WFOE Companies, which are wholly owned subsidiaries of CCMG, were set up in the PRC for the purpose of entering into contractual agreements for the establishment of the PRC Investment Company to hold the equity interest of CCN and for CCMG to share the economic benefits of CCN (details of which were set out in the circular of the Company dated 14 September 2005). Save for the abovementioned, the WFOE Companies and the PRC Investment Company do not conduct any other activities.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, CCMG is indirectly interested in approximately 31.96% equity interest of CCN through the PRC Investment Company which holds 30.37% equity interest of CCN and through SGC which holds 1.59% equity interest of CCN in trust in favour of CCMG.

Since CCMG is indirectly interested in 31.96% equity interest of CCN through the PRC Investment Company and SGC, CCN would be accounted for using equity method of accounting for investments in associates in CCMG's financial statements if consolidated.

The board of directors of CCMG proposed to acquire equity interest in the PRC Entity, which is engaged in the production and distribution of pay TV channels to cable network, internet, mobile devices and other media in the PRC. As at the Latest Practicable Date, CCMG is still negotiating with the shareholders of the PRC Entity in relation to the amount and terms of investment and no agreement has been entered into.

### **Principal Rights of the Preference Shares**

On a return of assets on winding up, each Preference Share has the option to elect to receive from CCMG payment of an amount equal to US\$2.50 per Preference Share plus any accrued but unpaid dividend in priority to the holders of the ordinary shares of CCMG, or to participate in the distribution of the assets of CCMG *pari passu* as among the holders of the ordinary shares of CCMG. Save as above, each Preference Share has same voting rights and dividend rights to which an ordinary share of CCMG is entitled and is convertible into one ordinary share at any time after the date of issue.

### **Financial information**

CCMG was accounted for in the Company's financial statements using the equity method of accounting as investments in associates and upon the completion of the Conversion and the Share Subscription, will continue to be accounted for using the equity method of accounting for investments in associates.

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## LETTER FROM THE BOARD

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The followings are unaudited consolidated financial information on CCMG as prepared in accordance with HK GAAP:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Revenue	–	5,038
Net (loss) before tax	(18,009)	(2,709)
Net (loss) after tax	(18,009)	(2,739)

	<b>As at</b>	
	<b>31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Total assets	466,133	463,989
Total liabilities	67,050	67,864
Net asset value	399,083	396,125

### **The Investors Subscriptions**

On 18 April 2007, CCMG also entered into subscription agreements pursuant to which the Financial Investor, the New Investor I and the New Investor II conditionally agreed to subscribe for 5,400,001, 4,050,000 and 450,000 new Preference Shares of CCMG respectively at the subscription price of approximately US\$2.22 (equivalent to approximately HK\$17.32) per Preference Share. The principal terms, such as use of consideration monies and date of closing, are similar to the Share Purchase Agreement. The Share Purchase Agreement is not conditional on the Investors Subscriptions.

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## LETTER FROM THE BOARD

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The table below sets out the shareholding structure of CCMG:

Shareholders	Before the Conversion, the Share Subscription and the Investors Subscriptions		After the Conversion and before the Share Subscription and the Investors Subscriptions		After the Conversion and the Share Subscription and before the Investors Subscriptions		After the Conversion, the Share Subscription and the Investors Subscriptions	
		(%)		(%)		(%)		(%)
Media Sky	10,839,812	34.77	10,839,812	40.68	10,839,812	45.67	10,839,812	36.12
	Ordinary Shares		Ordinary Shares and 3,104,749		Ordinary Shares and 6,254,749		Ordinary Shares and 6,254,749	
			Preference Shares		Preference Shares		Preference Shares	
Suntop	4,169,143	16.43	4,169,143	14.94	4,169,143	13.68	4,169,143	10.82
	Ordinary Shares and 950,597		Ordinary Shares and 950,597		Ordinary Shares and 950,597		Ordinary Shares and 950,597	
	Preference Shares		Preference Shares		Preference Shares		Preference Shares	
Financial Investor	15,213,155	48.80	15,213,155	44.38	15,213,155	40.65	20,613,156	43.55
	Preference Shares		Preference Shares		Preference Shares		Preference Shares	
New Investor I	-	-	-	-	-	-	4,050,000	8.56
							Preference Shares	
New Investor II	-	-	-	-	-	-	450,000	0.95
							Preference Shares	
Total:	15,008,955	100.00	15,008,955	100.00	15,008,955	100.00	15,008,955	100.00
	Ordinary Shares and 16,163,752		Ordinary Shares and 19,268,501		Ordinary Shares and 22,418,501		Ordinary Shares and 32,318,502	
	Preference Shares		Preference Shares		Preference Shares		Preference Shares	

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## LETTER FROM THE BOARD

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### INFORMATION ON CCN

CCN was established as a limited liability company under the laws of the PRC on 17 November 1995 and is currently owned as to 68.04% by the “Governmental Shareholders” as set out in the table below and 31.96% by CCMG through the PRC Investment Company which holds 30.37% equity interest of CCN and through SGC which holds 1.59% equity interest of CCN in trust in favour of CCMG.:

The “Governmental Shareholders”	%
SARFT Network Centre (廣電總局網路中心)	4.13
SARFT Network Centre EPM Union (廣電總局網路中心工會)	0.64
Wenzhou Cable Television Station (溫州市有線電視台)	14.4
Shaoxing City International Trust and Investment Company Limited (紹興市國際信託投資有限責任公司)	3.08
Shaoxing County International Trust and Investment Company Limited (紹興縣國際信託投資有限責任公司)	1.36
Zhoushan Broadcast Television Station (舟山廣播電視台)	3.47
Wuhu Broadcast Television Network Company, Limited (蕪湖市廣播電視網路有限責任公司)	3.75
Bengbu Television Station (蚌埠電視台)	2.38
Nantong Broadcast Television Network Transmission Centre (南通廣播電視網路傳輸中心)	8.46
Xuzhou Broadcast Television Station (徐州市廣播電視台)	6.48
Qidong Television Station (啟東電視台)	1.76
Yangzhou Television Station (揚州電視台)	3.85
Shangyu Television Network Development Station (上虞廣播電視網路發展總站)	5.90
Zaozhuang Cable Television Transmission Center (棗莊有線廣播電視傳輸中心)	2.41
Ma’anshan Cable Television Network Center (馬鞍山市有線電視網路中心)	3.73
Suihua Cable Television Station (綏化有線廣播電視臺)	2.24
Sub-total:	68.04
The PRC Investment Company and SGC in trust in favour of CCMG	31.96
Total:	100.00

CCN is a nationwide cable television network system operator company in the PRC, which owns the cable network of 18 cities along the wealthy coastal regions in the PRC. CCN has a customer base of over 2.5 million subscribers, and had become one of the largest cable television operator in the PRC. The Group equity accounted for its 34.77%, as at 31 December 2006,



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## LETTER FROM THE BOARD

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investment in CCMG and also equity accounted for CCMG's 31.96% indirect shareholding of CCN in its financial statement. During the year ended 31 December 2006, CCN contributed to the Group's attributable earnings of approximately HK\$3.86 million.

The following financial information is based on management accounts of CCN prepared in accordance with PRC accounting standards:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	440,947	609,695
Net profit before tax	15,217	35,911
Net profit after tax	14,408	34,733
	<b>As at 31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total assets	2,226,341	2,437,060
Total liabilities	1,012,716	1,119,262
Net asset value	1,213,625	1,317,798

### **REASONS FOR AND BENEFITS OF THE CONVERSION AND THE SHARE SUBSCRIPTION**

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture, distribution and sale of electronic and electrical products, office equipment, the manufacture, distribution and sales of healthcare products and multimedia business.

It has been the Group's long term strategy to progressively identify new business opportunities with a view to the forming of a solid foundation for strengthening the Group's future business development, future operating profits and as a result, enhancing the earning base and investment value of the Group.

The Directors believe that the cable television industry in the PRC has substantial growth potential as the living standard in the PRC is improving which, in the opinion of the Directors, would generate growing demand for entertainment. With subsidiaries of SARFT being the substantial shareholders, CCN is poised to capture the growth potential in this industry. Since 2003, the Group has invested, through Media Sky, in CCMG. Following the Share Subscription and the

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## LETTER FROM THE BOARD

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Investors Subscriptions, CCMG, through the PRC Investment Company, is expected to use the total consideration monies received to increase its investment in CCN and to acquire equity interest in the PRC Entity, which, in the opinion of the Directors, would generate future growth for the Group's business. In respect of CCN, it has increased from 10 System Operators in August 2005 to 14 System Operators in December 2006 while revenue increased from approximately RMB441 million for the year ended 31 December 2005 to RMB610 million for the year ended 31 December 2006.

As such, the Directors believe that the entering into the Share Purchase Agreement would at least allow the Company to preserve the Group's shareholding of CCMG and maintain its participation in the anticipated future growth of CCMG should the Investors Subscriptions be completed.

Therefore, the Directors including the independent non-executive Directors consider that the terms of the Share Purchase Agreement are fair and reasonable and the Conversion and the Share Subscription are in the interests of the Company and the Shareholders as a whole.

### **FINANCIAL EFFECTS OF THE CONVERSION AND THE SHARE SUBSCRIPTION**

The Conversion will not have any significant effect on the consolidated net asset value of the Group nor the interest in associates of the Group as the increase in the share of net assets of CCMG will be offset by the decrease in amount due from CCMG. The Conversion will not have any financial effect on the liabilities of the Group. Upon completion of the Share Subscription, the Group's share of results of CCMG will be recorded based on its increased interest in CCMG as share of profit (or loss) of associated companies in the consolidated profit and loss accounts of the Group.

### **GENERAL**

Given that the aggregate consideration ratio for the Conversion and the Share Subscription is more than 5% but less than 25%, the Conversion and the Share Subscription together constitute a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the Appendix to this circular.

On behalf of the Board  
**Stone Group Holdings Limited**  
**DUAN Yongji**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (i) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Director, or chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	Nature of interest	Long positions in the Shares and underlying Shares				Approximate percentage of existing issued share capital of the Company
		Interest in Shares	Interest in underlying Shares pursuant to Share options	Interest in underlying Shares pursuant to convertible notes	Aggregate interest	
Duan Yongji	Beneficial interest (Note 1)	45,075,538	3,900,000	182,692,305	231,667,843	14.85
Shen Guojun	Beneficial interest (Note 1)	0	4,000,000	0	4,000,000	0.26
Chen Xiaotao	Beneficial interest (Note 1)	0	8,000,000	0	8,000,000	0.51
Zhang Disheng	Beneficial interest (Note 1)	0	10,400,000	0	10,400,000	0.67
Shi Yuzhu	Interest of controlled corporation (Note 2)	0	0	492,105,264	492,105,264	31.55
Ng Ming Wah, Charles	Beneficial interest	1,000,000	–	–	1,000,000	0.06

*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 is deemed to be interested in 92,374,413 Shares which is being held by SGC’s wholly owned subsidiary, Wise Expand Developments Limited. SGC also directly holds 1,062,000 Shares of 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 assets of Stone Group Corporation but none of them has any specific interests in SGC.
2. The interest of Ready Finance Limited is held by it as beneficial owner. Ready Finance Limited is wholly owned by Shi Yuzhu who is deemed under the SFO to be interested in the Shares held by Ready Finance Limited. Shi Yuzhu is a director of Ready Finance Limited.
3. As at the Latest Practicable Date, the number of issued ordinary shares of the Company is 1,559,930,196 and is applied to calculate the relevant percentage.

Save as disclosed in above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

(ii) **Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital:

Name	Nature of interest	Long positions in the Shares and underlying Shares				Aggregate Interest	Approximate percentage of existing issued share capital of the Company (Note 6)
		Interest in Shares	Interest in underlying Shares pursuant to the options	Interest in underlying Shares pursuant to convertible notes			
Beijing Stone Investment Company Limited	Interest of controlled corporation (Note 1)	407,110,053	0	0	407,110,053	26.10	
Beijing Stone Investment Company Limited Employees' Shareholding Society	Interest of controlled corporation (Note 2)	407,110,053	0	0	407,110,053	26.10	
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Interest of controlled corporation (Note 2)	407,110,053	0	0	407,110,053	26.10	
Shenyang Huguang Group Co. Ltd.	Interest of controlled corporation (Note 2)	407,110,053	0	0	407,110,053	26.10	
Stone Group Corporation	Interest of controlled corporation (Note 2)	499,484,466	0	0	499,484,466	32.02	
	Beneficial interest (Note 2)	1,062,000	0	0	1,062,000	0.07	
Shenzhen Development Bank Co., Ltd. (Renminqiao Branch)	Beneficial interest (Note 3)	230,000,000	0	0	230,000,000	14.74	
Ready Finance Limited	Beneficial interest (Note 4)	0	0	492,105,264	492,105,264	31.55	

*Notes:*

1. The shareholding of 407,110,053 Shares comprises 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 Huguang Group Co. Ltd. which is accordingly deemed to be interested in the said 407,110,053 Shares. In addition, SGC is deemed to be interested in 92,374,413 Shares, which is being held by SGC's wholly owned subsidiary, Wise Expand Developments Limited. SGC also directly holds 1,062,000 Shares of the Company.
3. The interest of Shenzhen Development Bank Co., Ltd. (Renminqiao Branch) is held by it as person having a security interest in shares under a loan agreement.
4. The interest of Ready Finance Limited is held by it as beneficial owner. Please also refer to note 2 of paragraph (i) above for further information.
5. As at the Latest Practicable Date, the number of issued ordinary Shares of the Company is 1,559,930,196 and is applied to calculate the relevant percentage.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

Save as disclosed above, none of the Directors has or has had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2006, being the date to which the latest published audited accounts of the Company were made up.

**3. COMPETING INTERESTS**

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete with the business of the Group.

**4. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than normal statutory obligations.

**5. LITIGATION**

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

**6. GENERAL**

- (a) The company secretary and qualified accountant of the Company is Hui Yick Lok, Francis, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The Company's registered office, head office and principal place of business is at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.
- (c) The share registrar of the Company is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.