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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)**

**ANNOUNCEMENT**

This announcement is made pursuant to Rule 14.36 of the Listing Rules.

The Board announced that on 2 August 2007, the Company, Gotech, Richland, the Vendor and Mr. Chen entered into the Supplemental Deed. Pursuant to the Supplemental Deed, the parties agreed, among other things, as obligations of the Vendor and Mr. Chen (in place of the Original Equity Adjustment under the Sale and Purchase Agreement) for failing to meet the Profit Guarantee, the Vendor shall (a) transfer to Gotech and Richland 4,500 Ordinary Shares and 5,600 Ordinary Shares respectively for nil consideration upon execution of the Supplemental Deed; (b) for the consideration of US\$1.00 (equivalent to approximately HK\$7.80), irrevocably and unconditionally grant to Gotech the Option to acquire, at any time during the Option Period, the Option Shares for a consideration of US\$1.00 (equivalent to approximately HK\$7.80); and at the consideration of US\$1.00 (equivalent to approximately HK\$7.80), assign the dividend derived from the Option Shares during the Option Period to Gotech.

This announcement is made pursuant to Rule 14.36 of the Listing Rules.

Reference is made to the Announcement and the circular of the Company dated 4 April 2005 in respect of the entering into the Sale and Purchase Agreement and the Acquisition. Unless otherwise specified, capitalised terms defined in the Announcement shall have the same meanings when referred to in this announcement.

## BACKGROUND

On 7 March 2005, the Company, Gotech, Richland, the Vendor and Mr. Chen entered into the Sale and Purchase Agreement, pursuant to which, Gotech and Richland have respectively acquired from the Vendor 20,000 Preference Shares and 17,500 Preference Shares, representing 40% and 35% equity interests in Cayman MTY respectively, for considerations of US\$19,200,000 (equivalent to approximately HK\$149,760,000) and US\$16,800,000 (equivalent to approximately HK\$131,040,000) respectively.

Under the Sale and Purchase Agreement, the parties thereto agreed, among other things, that in the event that the Vendor and Mr. Chen failed to meet the Profit Guarantee, the interest of Gotech and Richland in Cayman MTY should be adjusted by way of issue of new Preference Shares (“**Original Equity Adjustment**”) as follows:

- percentage interest of Gotech in Cayman MTY =  $\text{US\$19,200,000} / (2006 \text{ Audited Profit} \times \text{US\$48,000,000} / 2006 \text{ Guaranteed Profit})$ ;
- percentage interest of Richland in Cayman MTY =  $\text{US\$16,800,000} / (2006 \text{ Audited Profit} \times \text{US\$48,000,000} / 2006 \text{ Guaranteed Profit})$

According to the audited accounts of Cayman MTY for its financial year ended 31 December 2006, Cayman MTY incurred a loss of approximately RMB19 million for the financial year of 2006. As such, the Vendor and Mr. Chen failed to meet the Profit Guarantee. Pursuant to the Original Equity Adjustment, Cayman MTY should issue at par per Preference Share (i.e. US\$1.00 each) 640,000 and 560,000 additional Preference Shares to Gotech and Richland respectively, with the Vendor and Mr. Chen being responsible for payment of the aggregate subscription price (“**Subscription Price**”) of US\$ 1.2 million. As a result of such issue, Cayman MTY would be owned as to 52.8% by Gotech, as to 46.2% by Richland and as to 1% by Yearbase, which would be the same percentages shareholding as those after the exercise of the Option by Gotech as set out below.

Each Preference Share carries the same voting right as an Ordinary Share. In addition, Preference Shares are redeemable and convertible and carry pre-emptive rights in case of any sale, transfer or disposal of interest in Cayman MTY. Please refer to the Announcement for details of such additional rights of Preference Shares.

However, since the Vendor and Mr. Chen are unable to pay the Subscription Price and issuance of the additional Preference Shares to Gotech pursuant to the Original Equity Adjustment would result in Cayman MTY, which is operating at a loss, becoming a subsidiary of the Company and thus having a negative impact on the financial position of the Group, the Company and Gotech after negotiation with the other parties thereto, agreed to enter into the Supplemental Deed instead of adhering to the Original Equity Adjustment. In the course of negotiation with the Vendor, the board of directors of the Company decided to file a claim in the form of a demand letter (which is not a document for instituting any legal process in the PRC) against the Vendor for indemnification as mentioned in the preliminary results announcement of the Company dated 11 July 2007.

## **THE SUPPLEMENTAL DEED**

### **Date**

2 August 2007

### **Parties**

1. The Vendor;
2. Mr. Chen;
3. Gotech;
4. The Company; and
5. Richland.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor, together with its ultimate beneficial owner, Mr. Chen, and their respective associates are third parties independent of both the Group and connected persons of the Group.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Richland, together with its ultimate beneficial owners, and their respective associates are third parties independent of both the Group and connected persons of the Group.

## **Terms**

### ***Transfer of Ordinary Shares***

In light of the Vendor's and Mr. Chen's failure to meet the Profit Guarantee and in consideration of the other parties thereto agreeing to enter into the Supplemental Deed,

1. Mr. Chen agreed to procure the Vendor and the Vendor agreed to transfer at nil consideration and upon execution of the Supplemental Deed:
  - a. 4,500 Ordinary Shares held by the Vendor to Gotech and;
  - b. 5,600 Ordinary Shares held by the Vendor to Richland;
2. the Vendor, in consideration of US\$1.00 (equivalent to approximately HK\$7.80), irrevocably and unconditionally granted to Gotech the Option to acquire, at any time and from time to time during the Option Period, part or all of the Option Shares for a consideration of US\$1.00 (equivalent to approximately HK\$7.80); and
3. the Vendor irrevocably and unconditionally assigns all the dividend derived from the Option Shares and the right to receive the dividend during the Option Period (inclusive of dividend declared but not yet distributed during the Option Period) to Gotech for a consideration of US\$1.00 (equivalent to approximately HK\$7.80).

The table below sets out the change in shareholding structure of Cayman MTY pursuant to the terms of the Supplemental Deed:

<b>Name of Shareholders</b>	<b>As at date of this announcement</b> <i>(Number of shares)</i>	<b>Percentage shareholding</b> <i>(%)</i>	<b>Upon execution of the Supplemental Deed and the transfer of Ordinary Shares as contemplated thereunder assuming the Option is not exercised</b> <i>(Number of shares)</i>	<b>Percentage shareholding</b> <i>(%)</i>	<b>Upon full exercise of the Option</b> <i>(Number of share)</i>	<b>Percentage shareholding</b> <i>(%)</i>
Gotech	20,000 Preference Shares	40.0	20,000 Preference Shares and 4,500 Ordinary Shares	49.0	20,000 Preference Shares and 6,400 Ordinary Shares	52.8
Richland	17,500 Preference Shares	35.0	17,500 Preference Shares and 5,600 Ordinary Shares	46.2	17,500 Preference Shares and 5,600 Ordinary Shares	46.2
Yearbase	12,500 Ordinary Shares	25.0	2,400 Ordinary Shares	4.8	500 Ordinary Shares	1.0
Total:	37,500 Preference Shares and 12,500 Ordinary Shares	100.0	37,500 Preference Shares and 12,500 Ordinary Shares	100.00	37,500 Preference Shares and 12,500 Ordinary Shares	100.00

Prior to exercise of the Option, Cayman MTY will continue to be treated as an associated company of the Group upon execution of the Supplemental Deed and transfer of the aforesaid Ordinary Shares as contemplated by the Supplemental Deed.

### ***Warranty and Undertaking in respect of Option Shares***

The Vendor and Mr. Chen jointly and severally warrant and undertake, among other things, that during the Option Period (i) the Vendor remains the sole beneficial owner of Option Shares; and (ii) the Vendor shall not and shall not agree to sell, transfer or mortgage, incumbrance or otherwise deal with the Option Shares save and except pursuant to the terms of the Supplemental Deed.

The terms of the Supplemental Deed were arrived at after arm's length negotiations upon considering the terms in respect of the Profit Guarantee and Original Equity Adjustment. The Directors consider that terms of the Supplemental Deed are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **INFORMATION ON CAYMAN MTY**

Cayman MTY was incorporated in the Cayman Islands with limited liability on 18 November 2004. Cayman MTY has a wholly owned subsidiary, MTY WFOE, which is a wholly foreign owned enterprise incorporated in the PRC in January 2005 for the purpose of entering into the Contractual Arrangements (as defined in the Announcement) to own Beijing MTY. Other than its interest in MTY WFOE, Cayman MTY does not have any other major assets or business.

MTY Group is mainly engaged in the wireless telecommunication 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.

The following table shows the audited financial information of Cayman MTY for the two years ended 31 December 2005 and 31 December 2006.

	<b>For the year ended 31 December 2005</b> <i>(approximately)</i>	<b>For the year ended 31 December 2006</b> <i>(approximately)</i>
Profit / (loss) before taxation	RMB67,124,000 (HK\$65,168,932)	RMB(16,657,000) (HK\$(16,171,845))
Profit / (loss) after taxation	RMB67,123,000 (HK\$65,167,961)	RMB(18,771,000) (HK\$(18,224,272))
Net assets	RMB151,582,000 (HK\$147,166,990)	RMB132,575,000 (HK\$128,713,592)

## **REASONS FOR, AND BENEFITS OF, ENTERING INTO THE SUPPLEMENTAL DEED**

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.

At the date of this announcement, Cayman MTY is already an associated company of the Company. As the Vendor and Mr. Chen failed to meet the Profit Guarantee, 640,000 Preference Shares should be issued to Gotech pursuant to the Original Equity Adjustment, resulting in Cayman MTY being a subsidiary of the Company. However, having considered the fact that (a) the Vendor and Mr. Chen are financially unable to pay the Subscription Price, (b) having Cayman MTY, which operates at a loss, as a subsidiary will have a negative impact on the financial position of the Company and (c) the arrangement contemplated under the Supplemental Deed would enable the Group to obtain further shareholding in Cayman MTY without resulting it into being a subsidiary, whilst at the same time, having all the dividend derived from the Option Shares and the flexibility to acquire further shareholding in Cayman MTY pursuant to the Option when the financial performance of Cayman MTY improves, the Company agreed to enter into the Supplemental Deed after arm's length negotiation with the other parties thereto. The Directors consider that terms of the Supplemental Deed are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

*As at the date of this announcement, the Board of the Company comprises ten directors, of whom Messrs. DUAN Yongji, SHI Yuzhu, SHEN Guojun, ZHANG Disheng, CHEN Xiaotao and Ms. LIU Wei are executive Directors and Messrs. NG Ming Wah, Charles, Andrew Y.YAN, LIU Ji and LIU Jipeng are independent non-executive Directors.*

### **DEFINITION**

“Acquisition”	the acquisition of 20,000 Preference Shares by Gotech from the Vendor pursuant to the Sale and Purchase Agreement
“Announcement”	the announcement dated 14 March 2005 of the Company in respect of the entering into the Sale and Purchase Agreement and the Acquisition

“2006 Audited Profit”	the audited consolidated net profit after taxation of Cayman MTY and its subsidiaries for the year ending 31 December 2006 prepared in accordance with HK GAAP
“2006 Guaranteed Profit”	US\$8,100,000, being the minimum consolidated net profit after taxation of Cayman MTY and its subsidiaries for the year ended 31 December 2006
“Cayman MTY”	ME TO YOU HOLDINGS LTD., a company incorporated in the Cayman Islands with limited liability, which is owned as to 49% by Gotech, as to 46.2% by Richland and as to 4.8% by Yearbase as contemplated by the Supplemental Deed
“Company”	Stone Group Holdings Limited, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Supplemental Deed
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Gotech”	Gotech Holdings Limited, a company incorporated in the British Virgin Islands which is a wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HKGAAP”	the Hong Kong Generally Accepted Accounting Principles
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chen”	陳志方 (Chen Zhi Fang), who is a third party independent of both the Group and connected person of the Group
“MTY Group”	Cayman MTY, Beijing MTY and their respective subsidiaries from time to time



“Option”	the option granted by the Vendor to Gotech to acquire, at any time during the Option Period, up to 1,900 Ordinary Shares for a consideration of US\$1.00 (equivalent to approximately HK\$7.80)
“Option Period”	the period starting from 2 August 2007 up to (1) the date when Gotech has exercised the Option in full or (2) a period of 5 years thereafter, whichever is the earlier
“Option Shares”	1,900 Ordinary Shares held by the Vendor at the date of this Announcement
“Ordinary Shares”	the ordinary shares of US\$1.00 each in the capital of Cayman MTY
“PRC”	the People’s Republic of China and for the purpose of this announcement, excluding Hong Kong and Macau Special Administrative Region and Taiwan
“Preference Share(s)”	Series A-Preferred Share(s) of US\$1.00 each in the issued preference share capital of Cayman MTY
“Profit Guarantee”	each of the Vendor and Mr. Chen guaranteed that the 2006 Audited Profit shall not be less than the 2006 Guaranteed Profit under the Sale and Purchase Agreement
“Richland”	Richland International Limited, a company incorporated under the laws of Samoa which, together with its ultimate beneficial owner(s), are third parties independent of the Group and connected persons of the Group
“Sale and Purchase Agreement”	the agreement dated 7 March 2005 entered into by the Company, Gotech, Richland, the Vendor and Mr. Chen, in relation to, among other things, the Acquisition
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company

“Shareholders”	holder of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Deed”	the supplemental deed dated 2 August 2007 entered into between the Vendor, Mr. Chen, Gotech, Richland and the Company, same parties as those of the Sale and Purchase Agreement in relation to, among other things, the transfer of Ordinary Shares from the Vendor to Gotech and Richland and the grant of Option by the Vendor to Gotech
“Yearbase” or the “Vendor”	Yearbase International Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by Mr. Chen
“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.

Conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 = HK\$1.03 and conversion of US\$ into HK\$ is based on the exchange rate of US\$1 = HK\$7.8.

By Order of the board  
**Stone Group Holdings Limited**  
**Duan Yongji**  
*Chairman*

Hong Kong, 3 August 2007