THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Stone Group Holdings Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

STONE GROUP HOLDINGS LIMITED
四通控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 409)

PROPOSED PRIVATISATION OF STONE GROUP HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND WITHDRAWAL OF LISTING

Financial Adviser to Stone Group Holdings Limited

MACQUARIE

Macquarie Capital (Hong Kong) Limited

Independent Financial Adviser to the Independent Board Committee of Stone Group Holdings Limited

ANGLO CHINESE CORPORATE FINANCE, LIMITED 英高

A letter from the Board is set out on pages 11 to 19 of this document. An Explanatory Statement regarding the Scheme is set out on pages 58 to 77 of this document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders and the Optionholders in relation to the Proposal is set out on pages 20 to 21 of this document. A letter from Anglo Chinese, being the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 22 to 57 of this document.

The actions to be taken by the Shareholders are set out on page 74 of this document.

Notices of the Court Meeting and the EGM both to be held on Wednesday, 23 September 2009 are set out on pages 193 to 197 of this document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the respective instructions printed thereon, and to deposit them at the registered office of the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the section headed "Actions to be taken by the Shareholders" on page 74 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged not later than 48 hours before the time appointed for the holding of the EGM. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the meeting on the day and at the place, but before commencement, of the meeting or the adjourned meetings.

In the event of any inconsistency, the English language text of this document shall prevail over the Chinese language text.

31 August 2009

CONTENTS

Page

In this document, the following expressions have the meanings set out below unless the context requires otherwise:

"acting in concert"	has the meaning given to it in the Takeovers Code
"Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, the independent financial adviser to the Independent Board Committee and a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
"Announcement"	the announcement dated the Announcement Date issued by the Company relating to, inter alia, the Proposal
"Announcement Date"	25 May 2009, being the date of the Announcement
"associate(s)"	has the meaning given to it in the Takeovers Code
"Authorisations"	all necessary authorisations, registrations, filings, rulings, consents, permissions, approvals, waivers or exemptions required from any Relevant Authorities or other third parties which are necessary in connection with the Scheme or for the implementation of the Proposal
"BJ Stone Investment"	Beijing Stone Investment Company Limited
"BJ Stone Employees' Shareholdings Society"	Beijing Stone Investment Company Limited Employees' Shareholdings Society
"Board"	the board of directors of the Company
"Business Day"	a day on which the Stock Exchange is open for the business of dealing in securities
"Cancellation Consideration"	HK$0.48 per Scheme Share, the cancellation price payable in cash by the Company to the Independent Shareholders under the Scheme

"CCASS"	the Central Clearing and Settlement established and operated by HKSCC
"CCMG"	China Cable Media Group Limited
"CCN"	China Cable Network Co., Limited
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Stone Group Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange
"Conditions"	means the conditions to which the Proposal is subject, which are set out in the section headed "Conditions of the Proposal" in the Explanatory Statement
"Court Meeting"	a meeting of the Independent Shareholders to be convened at the direction of the High Court on 23 September 2009 at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong, at which the Scheme will be voted upon
"Director(s)"	director(s) of the Company
"Effective Date"	the date on which the Scheme, if approved, becomes effective in accordance with its terms
"EGM"	the extraordinary general meeting of the Company to be held on 23 September 2009 at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong, to consider and approve, among other matters, the capital reduction arising as a result of the Proposal, or any adjournment thereof
"Explanatory Statement"	means the explanatory statement set out on pages 58 to 77 of this document
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

"Group"	the Company and its subsidiaries
"High Court"	the High Court of Hong Kong
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company established for the purpose of advising the Independent Shareholders and the Optionholders in relation to the Proposal, and comprising the non-executive Director, Mr. Cheng Fumin, and all three independent non-executive Directors, namely Messrs. Ng Ming Wah, Charles, Andrew Y. Yan and Liu Jipeng
"Independent Shareholders"	Shareholders other than the Interested Shareholders and persons acting in concert with any of them
"Interested Shareholders"	BJ Stone Investment, SGC, Wise Expand, Ready Finance, Mr. Duan Yongji and the Management Shareholders
"Jiu Guang"	Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.
"Last Trading Date"	15 May 2009, being the last full trading day prior to the suspension of trading of the Shares pending issue of the Announcement
"Latest Practicable Date"	28 August 2009, being the latest practicable date prior to the issue of this document for ascertaining for obtaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Macquarie"	Macquarie Capital (Hong Kong) Limited, the financial advisor to the Company and a licensed corporation under the SFO, licensed to conduct Type 6 (advising on corporate finance) regulated activity
"Management Loans"	loans in the aggregate amount of HK$100,485,000 provided to the Company by Messrs. Duan Yongji and Zhang Disheng (both are executive Directors), and Messrs. Xu Changping and Lu Fang (both are senior management of the Group), pursuant to loan agreements dated 15 May 2009
"Management Shareholders"	Ms. Yu Dongmei (whose shareholding is held through Vital), Ms. Wu Huan, Ms. Wu Qiong, Messrs. Yang Langtao, Jing Xiangdong, Lu Fang, Ma Xin and Xu Jingyao, Ms. Yu Xiangqun, Mr. Zhang Changji and Ms. Leung Suk Kam (all are senior management of the Group)
"MTY Group"	Me to You Holdings Limited and its subsidiaries
"Option Payment"	HK$0.001 per Option, the cancellation price payable in cash by the Company to the Optionholders pursuant to the Option Proposal
"Option Proposal"	the proposal to Optionholders for cancellation of all Outstanding Options
"Option(s)"	options granted under the Share Option Scheme
"Optionholders"	holder(s) of Option(s), which include Interested Shareholders who hold Options
"Outstanding Options"	Options not exercised as at the Record Date
"PRC"	the People's Republic of China, excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposal"	the Scheme and the Option Proposal

"Ready Finance"	Ready Finance Limited
"Record Date"	the date falling on the expiry of two months after the giving of the notice of the meeting to consider the Scheme or the date the Scheme becomes effective, whichever is the earlier, being the last date for exercising the Options so that the Shares to be issued shall be qualified as Scheme Shares
"Record Time"	means 4:00 p.m. Hong Kong time on the trading day immediately preceding the day when the Scheme becomes effective, being the record time for determining entitlements of the Independent Shareholders under the Scheme
"Relevant Authorities"	relevant governments and/or governmental bodies, regulatory bodies, courts or institutions
"Relevant Period"	the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date
"Scheme"	a scheme of arrangement under Section 166 of the Companies Ordinance to cancel all the Scheme Shares
"Scheme Share(s)"	Share(s) held by the Independent Shareholders
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGC"	Stone Group Corporation
"Share Option Scheme"	the Share Option Scheme adopted by the Company on 12 April 2002, as may from time to time be amended or supplemented
"Share(s)"	share(s) of HK$0.10 each in the issued share capital of the Company

"Shareholders"	registered holders of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Stone Resources"	Stone Resources Limited, a company incorporated in Hong Kong with limited liability in which the Company and Mr. Duan Yongji (an executive Director) own 16.67% and 20% equity interest, respectively
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Vital"	Vital International Limited, a company incorporated in Samoa with limited liability on 8 January 2004 and wholly-owned by Ms. Yu Dongmei
"Wise Expand"	Wise Expand Developments Limited

All references in this document to times and dates are references to Hong Kong times and dates.

EXPECTED TIMETABLE

The following timetable takes into account the High Court procedures for the Scheme. The expected timetable is indicative only and is subject to change.

	Hong Kong time
Latest time for exercising the Options so that holders of Shares to be issued upon the exercise of the Options shall be able to register their names in the register of members of the Company and be qualified to attend and vote at the Court Meeting and the EGM *(Notes 1 and 2)*	4:00 p.m. on Tuesday, 15 September 2009
Latest time for lodging transfers of Shares to qualify for attending and voting at the Court Meeting and the EGM	4:30 p.m. on Tuesday, 15 September 2009
Closure of the register of members of the Company for determination of entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM	from Wednesday, 16 September 2009 to Wednesday, 23 September 2009 (both dates inclusive)
Latest time for lodging forms of proxy in respect of:	
the Court Meeting *(Note 3)*	10:00 a.m. on Monday, 21 September 2009
the EGM *(Note 3)*	10:30 a.m. on Monday, 21 September 2009
Suspension of trading in the Shares	9:30 a.m. on Wednesday, 23 September 2009

The Court Meeting *(Note 4)*	10:00 a.m. on Wednesday, 23 September 2009
The EGM *(Note 4)*	10:30 a.m. on Wednesday, 23 September 2009 or as soon thereafter as the Court Meeting shall have been concluded or adjourned
Announcement of the results of the Court Meeting and the EGM posted on the website of the Stock Exchange	no later than 7:00 p.m. on Wednesday, 23 September 2009
Resumption of trading in the Shares	9:30 a.m. on Thursday, 24 September 2009
High Court hearing of the summons for directions in respect of the capital reduction	Tuesday, 29 September 2009
Last day of dealings in the Shares on the Stock Exchange	Tuesday, 6 October 2009
Latest time for exercising the Options so that the Shares to be issued shall be qualified as Scheme Shares under the Proposal *(Note 5)*	4:00 p.m. on Monday, 12 October 2009
Latest time for lodging transfers of Shares to qualify for entitlements of the Independent Shareholders under the Scheme	4:30 p.m. on Monday, 12 October 2009
Closure of the register of members of the Company for determination of entitlements of the Independent Shareholders under the Scheme	from Tuesday, 13 October 2009 to Tuesday, 20 October 2009 (both dates inclusive)

High Court hearing of the petition to sanction the Scheme	Tuesday, 20 October 2009
Record Time	4:00 p.m. on Tuesday, 20 October 2009
Announcement of the results of the High Court hearing of the petition to sanction the Scheme	no later than 7:00 p.m. on Tuesday, 20 October 2009
Effective Date *(Note 6)*	Wednesday, 21 October 2009
Lapse of the Options *(Notes 1 and 5)*	Wednesday, 21 October 2009
Withdrawal of the listing of the Shares on the Stock Exchange becomes effective	after close of business on Wednesday, 21 October 2009
Announcement of the Effective Date and withdrawal of listing of the Shares on the Stock Exchange	Wednesday, 21 October 2009
Cheques for cash payment under the Scheme and the Option Proposal to be dispatched	on or before Wednesday, 28 October 2009

Shareholders should note that the above timetable, which is dependent on all Conditions being fulfilled and/or otherwise waived (as the case may be) and the availability of the dates of the High Court to hear the proceedings for the sanctioning of the Scheme, is subject to change. Further announcement(s) will be made in the event that there is any such change.

Notes:

1. Under the terms of the Share Option Scheme and as a result of the Proposal, all Options will lapse and will cease to be exercisable upon the Scheme becoming effective or two months after the date of the giving of the notice of the Court Meeting to consider the Scheme, whichever is the earlier. If the Scheme lapses, the Options will cease to be exercisable on or about 30 October 2009 subject to and in accordance with the terms of the Share Option Scheme.

2. Holders of the Options should note that in case they wish to exercise their subscription rights attaching to the Options in accordance with the terms of the Share Option Scheme so that holders of the Shares to be issued upon exercise of the Options shall have sufficient time to register their names in the register of members and be qualified to attend and vote at the Court Meeting and at the EGM, they must exercise their subscription rights attaching to the Options on or before 4:00 p.m. on Tuesday, 15 September 2009 and have their names registered before the close of the register of members for the purpose of determining the Shareholders who are qualified to attend and vote at the Court Meeting and at the EGM at 4:30 p.m. on Tuesday, 15 September 2009.

3. Forms of proxy should be deposited at the registered office of the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong as soon as possible and by the times and dates stated above. The forms of proxy in respect of the Court Meeting may be handed to the Chairman of the Court Meeting if it is not so lodged. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the meeting on the day and at the place, but before commencement, of the meeting. In the case of any beneficial owner of Shares whose Shares are held upon trust by and registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, or in the case of any beneficial owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, your attention is drawn to the paragraph headed "Shareholders who hold their Shares through trust or CCASS" in the Explanatory Statement.

4. Both the Court Meeting and the EGM will be held at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong at the time and dates specified above.

5. Holders of the Options should note that in case they have not exercised their subscription rights attaching to the Options for the purpose of qualifying as a Shareholder to attend and vote at the Court Meeting and at the EGM, and wish to exercise their subscription rights attaching to the Options in accordance with the terms of the Share Option Scheme so as to enjoy their entitlement as Independent Shareholders, they must exercise their subscription rights attaching to the Options on or before 4:00 p.m. on Monday, 12 October 2009 and have their names registered before the close of the register of members for the purpose of determining payment to the Independent Shareholders at 4:30 p.m. on Monday, 12 October 2009.

6. The Scheme will become effective upon all the Conditions being fulfilled and/or otherwise waived (as the case may be).

STONE GROUP HOLDINGS LIMITED
四 通 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 409)

Executive Directors:
Duan Yongji
Shi Yuzhu
Shen Guojin
Chen Xiaotao
Zhang Disheng
Liu Zuowei

Non-Executive Director:
Cheng Fumin

Independent Non-Executive Directors
Ng Ming Wah, Charles
Andrew Y. Yan
Liu Jipeng

Registered office:
27th Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

31 August 2009

To the Shareholders and Optionholders

Dear Sir or Madam,

PROPOSED PRIVATISATION OF STONE GROUP HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND WITHDRAWAL OF LISTING

INTRODUCTION

The Board announced on 25 May 2009 that the Company intended to put forward the Proposal to privatise the Company by way of a scheme of arrangement under Section 166 of the Companies Ordinance. The Company proposed that all Scheme Shares would be cancelled in exchange for HK$0.48 in cash for each Scheme Share. As at the Latest Practicable Date, the Independent Shareholders were interested in 1,152,192,732 Shares, representing approximately 57.4% of the issued share capital of the Company.

Upon the Scheme becoming effective, the Company will become wholly-owned by the Interested Shareholders. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme fails to materialise.

As at the Latest Practicable Date, the Interested Shareholders were beneficially interested in 854,956,389 Shares in aggregate, representing approximately 42.6% of the issued ordinary share capital of the Company. The Interested Shareholders are considered to have interest in the Proposal as the Company will become wholly-owned by them upon the Scheme becoming effective. Accordingly, Shares held by the Interested Shareholders will not form part of the Scheme Shares and they will not be entitled to vote on the resolution to approve the Scheme at the Court Meeting. In addition, the Interested Shareholders and persons acting in concert with any of them shall also abstain from voting at the Court Meeting. As at the Latest Practicable Date, other than the Interested Shareholders, none of the persons acting in concert with any of the Interested Shareholders had any interest in Shares.

The Company has appointed Macquarie as its financial adviser in connection with the Proposal. The Independent Board Committee, comprising the non-executive Director, Mr. Cheng Fumin, and all three independent non-executive Directors, namely Messrs. Ng Ming Wah, Charles, Andrew Y. Yan and Liu Jipeng, was formed to advise the Independent Shareholders and the Optionholders in connection with the Proposal. Other than the holding of Options and Mr. Ng Ming Wah, Charles who was interested in Shares as at the Latest Practicable Date as set out in the section headed "Disclosure of Interests under the SFO" in Appendix II to this document, none of the members of the Independent Board Committee has any interest in the Proposal. Anglo Chinese has been appointed, with the approval of the Independent Board Committee, as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with, among other things, further details of the Proposal, the expected timetable, the Explanatory Statement, further information regarding the Company, the recommendations of the Independent Board Committee with respect to the Proposal, the letter from Anglo Chinese to the Independent Board Committee, and to give you notices of the Court Meeting and the EGM. In this regard, your attention is drawn to:

(i) the letter from the Independent Board Committee set out on pages 20 to 21 of this document;

(ii) the letter from Anglo Chinese to the Independent Board Committee set out on pages 22 to 57 of this document;

(iii) the Explanatory Statement set out on pages 58 to 77 of this document; and

(iv) the Scheme set out on pages 187 to 192 of this document.

THE PROPOSAL

The Scheme

It is proposed that subject to fulfillment or waiver (as applicable) of the conditions of the Proposal as described in the Explanatory Statement, the Proposal will be implemented by way of the Scheme, which will involve the cancellation of all the Scheme Shares and the reduction of the issued share capital of the Company. Under the Scheme, in consideration of the cancellation of the Scheme Shares, each Independent Shareholder will be entitled to receive the Cancellation Consideration, being HK$0.48 in cash, from the Company for every Scheme Share held.

As at the Latest Practicable Date, there were 2,007,149,121 Shares in issue out of which the Independent Shareholders were interested in 1,152,192,732 Shares, representing approximately 57.4% of the issued share capital of the Company.

Assuming that the Scheme becomes effective on 21 October 2009, the issued share capital of the Company will be reduced by cancelling and extinguishing all the Scheme Shares. Following the Scheme becoming effective, cheques for cash payment under the Scheme are expected to be despatched to the Independent Shareholders on or before 28 October 2009.

The Option Proposal

In accordance with the terms of the Share Option Scheme, Optionholders are entitled to exercise their Options, which confer rights to subscribe for Shares at a price of HK$0.714 per Share (in relation to 110,400,000 Options) and HK$0.852 per Share (in relation to 7,000,000 Options), in full or in part at any time up to the Record Date. The Shares issued upon exercise of the Options in accordance with the terms of the Share Option Scheme will form part of the Scheme Shares. Options which are not exercised in accordance with the terms of the Share Option Scheme will lapse.

Under the Option Proposal, the Company will purchase Outstanding Options, for cancellation in exchange for HK$0.001 in cash for each Outstanding Option, subject to and conditional upon the Scheme becoming effective. Normally, the amount of the cash offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Cancellation Consideration (i.e. the "see-through" price). As the exercise price of all the Options is above the Cancellation Consideration, the Option Payment will be nominal.

Upon the Scheme becoming effective, the Outstanding Options will be automatically cancelled and the Company will pay the Option Payment to holders of such Outstanding Options automatically. Cheques for cash payment under the Option Proposal are expected to be despatched to Optionholders on or before 28 October 2009.

Comparison of value

The Cancellation Consideration of HK$0.48 in cash for each Scheme Share cancelled under the Proposal represents:

- a premium of approximately 39.1% over the closing price of HK$0.345 per Share as quoted on the Stock Exchange on the Last Trading Date;

- a premium of approximately 44.7% over the average closing price of approximately HK$0.332 per Share based on the daily closing prices as quoted on the Stock Exchange over the one month up to and including the Last Trading Date;

- a premium of approximately 68.4% over the average closing price of approximately HK$0.285 per Share based on the daily closing prices as quoted on the Stock Exchange over the three months up to and including the Last Trading Date;

- a premium of approximately 68.1% over the average closing price of approximately HK$0.285 per Share based on the daily closing prices as quoted on the Stock Exchange over the six months up to and including the Last Trading Date;

- a premium of approximately 18.5% over the closing price of HK$0.405 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- a discount of approximately 35.3% to the audited consolidated net tangible asset value attributable to Shareholders per Share of approximately HK$0.742 as at 31 March 2009; and

- a discount of approximately 40.7% to the audited consolidated net tangible asset value attributable to Shareholders per Share of approximately HK$0.809 as at 31 March 2008.

During the six month period preceding the Last Trading Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.370 per Share on 12 May 2009 and HK$0.232 per Share on 18 March 2009, respectively.

The Cancellation Consideration of HK$0.48 per Scheme Share cancelled is final and will not be revised by the Company.

At the Cancellation Consideration, the Proposal values the entire issued share capital of the Company at approximately HK$963 million.

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Scheme becoming effective and the listing of the Shares on the Stock Exchange is withdrawn (assuming none of the Outstanding Options have been exercised on or prior to the Record Date):

	As at the Latest Practicable Date		Immediately after the Scheme becomes effective and the listing of the Shares on the Stock Exchange is withdrawn	
Shareholders	*Number of Shares*	*%*	*Number of Shares*	*%*
Interested Shareholders and persons acting in concert with any of them				
BJ Stone Investment	407,110,053 *(Note 1)*	20.28	407,110,053	47.62
SGC	1,062,000	0.05	1,062,000	0.12
Wise Expand	92,374,413	4.60	92,374,413	10.80
Ready Finance	55,263,157	2.75	55,263,157	6.46
Duan Yongji	140,896,306	7.02	140,896,306	16.48
Management Shareholders				
Yu Dongmei *(Note 4)*	57,692,307	2.87	57,692,307	6.75
Wu Huan	23,602,153	1.18	23,602,153	2.76
Wu Qiong	10,000,000	0.50	10,000,000	1.17
Yang Langtao	10,000,000	0.50	10,000,000	1.17
Jing Xiangdong	9,500,000	0.47	9,500,000	1.11
Lu Fang	9,500,000	0.47	9,500,000	1.11
Ma Xin	9,500,000	0.47	9,500,000	1.11
Xu Jingyao	9,500,000	0.47	9,500,000	1.11
Yu Xiangqun	9,500,000	0.47	9,500,000	1.11
Zhang Changji	6,000,000	0.30	6,000,000	0.70
Leung Suk Kam	3,456,000	0.17	3,456,000	0.40
Sub-total for Management Shareholders	158,250,460	7.88 *(Note 3)*	158,250,460	18.51 *(Note 3)*
Sub-total for Interested Shareholders and persons acting in concert with any of them	854,956,389	42.60 *(Note 3)*	854,956,389	100.00 *(Note 3)*
Independent Shareholders	1,152,192,732 *(Note 2)*	57.40	0	0
Total	2,007,149,121	100	854,956,389	100

Notes:

1. Out of these 407,110,053 Shares held by BJ Stone Investment, 310,000,000 Shares have been pledged to 深圳發展銀行深圳人民橋支行, which has confirmed that for the purposes of the Proposal, all shareholder's rights (including voting rights) in relation to the pledged Shares are exercisable exclusively by BJ Stone Investment at its own discretion.

2. Out of these 1,152,192,732 Shares held by Independent Shareholders, 1,000,000 Shares are held by Mr. Ng Ming Wah, Charles, an independent non-executive Director.

3. Rounded to the nearest decimal place.

4. Ms. Yu Dongmei's shareholding interest is held through Vital.

The Company had 117,400,000 Outstanding Options as at the Latest Practicable Date. Each Option, on exercise, will entitle the Optionholder to be allotted with one Share. The table below sets out details of the Options as at the Latest Practicable Date:

Optionholders	**Number of Options**
Interested Shareholders *(Note 1)*	
Duan Yongji	15,000,000
Shi Yuzhu *(Note 2)*	5,000,000
Management Shareholders	10,400,000
Other Optionholders	87,000,000
Total	117,400,000

Notes:

1. Options held by Interested Shareholders are also subject to the Option Proposal.

2. Mr. Shi Yuzhu, an executive Director, holds 100% of Ready Finance.

Save as disclosed above, there were no outstanding options, warrants, derivatives, convertible securities or other securities issued by the Company that carried a right to subscribe for or which were convertible into Shares as at the Latest Practicable Date. Upon the Scheme becoming effective and the withdrawal of listing of the Shares on the Stock Exchange, the Company will be held by the Interested Shareholders in the percentages set out above.

CONDITIONS OF THE PROPOSAL

Your attention is drawn to the section headed "Conditions of the Proposal" in the Explanatory Statement.

REASONS FOR AND BENEFITS OF THE PROPOSAL

Your attention is drawn to the section headed "Reasons for and benefits of the Proposal" in the Explanatory Statement.

FINANCIAL RESOURCES

Total consideration

On the basis of the Cancellation Consideration of HK$0.48 per Scheme Share and 2,007,149,121 Shares in issue, of which 1,152,192,732 were Scheme Shares as at the Latest Practicable Date, the Scheme Shares are valued at approximately HK$553 million.

Assuming none of the Options are exercised prior to the Record Date in accordance with the terms of the Share Option Scheme and on the basis of the Option Payment of HK$0.001, the Option Proposal is valued at approximately HK$0.1 million. Assuming all Options are exercised in full by the Optionholders in accordance with the terms of the Share Option Scheme prior to the Record Date, no consideration will be payable under the Option Proposal.

Assuming none of the Options are exercised prior to the Record Date, the maximum amount of cash required to effect the Proposal is approximately HK$553 million. Assuming all Options are exercised in full prior to the Record Date, the maximum amount of cash required to effect the Proposal is approximately HK$609 million.

Confirmation of financial resources

The Company will fund the cash required to effect the Proposal from bank borrowings, the Management Loans and its own resources. Macquarie is satisfied that sufficient financial resources are available to the Company for the implementation of the Proposal.

INFORMATION ON THE GROUP

Your attention is drawn to the section headed "Information on the Group" in the Explanatory Statement.

INFORMATION ON THE INTERESTED SHAREHOLDERS

Your attention is drawn to the section headed "Information on the Interested Shareholders" in the Explanatory Statement.

FUTURE INTENTIONS

Your attention is drawn to the section headed "Future intentions" in the Explanatory Statement.

WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules with effect from the date on which the Scheme becomes effective. The holders of the Scheme Shares will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

If the Scheme is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

THE COURT MEETING AND THE EGM

In accordance with the direction of the High Court, the Court Meeting has been convened to be held on Wednesday, 23 September 2009 for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). The Scheme is subject to approval by a majority in number of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by the Independent Shareholders.

The EGM will be held immediately following the Court Meeting for the purposes of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme by the Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme at the EGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

Notices of the Court Meeting and the EGM are set out on pages 193 to 197 of this document. The Court Meeting and the EGM will be held on Wednesday, 23 September 2009 at the respective times specified in such notices at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong.

EXPLANATORY STATEMENT

Please refer to the Explanatory Statement on pages 58 to 77 of this document for detailed information in relation to the Proposal and an explanation of the effects of the Proposal.

RECOMMENDATIONS OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to the "Letter from Independent Board Committee" as set out on pages 20 to 21 of this document which sets out its recommendations in relation to the Proposal.

ADVICE OF ANGLO CHINESE

Your attention is drawn to the "Letter from Anglo Chinese" as set out on pages 22 to 57 of this document.

ADDITIONAL INFORMATION

Your attention is also drawn to all the appendices to this document set out on pages 78 to 186 of this document, the scheme of arrangement set out on pages 187 to 192 of this document and the notices of the Court Meeting and the EGM set out on pages 193 to 197 of this document.

Your faithfully,
For and on behalf of
Stone Group Holdings Limited
DUAN Yongji
Chairman

STONE GROUP HOLDINGS LIMITED
四通控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 409)

31 August 2009

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

PROPOSED PRIVATISATION OF STONE GROUP HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND WITHDRAWAL OF LISTING

We refer to our appointment to advise the Independent Shareholders and the Optionholders in respect of the Proposal, details of which are contained in the "Letter from the Board" set out on pages 11 to 19 and the "Explanatory Statement" set out on pages 58 to 77 of the scheme document to the Shareholders dated 31 August 2009 (the "Scheme Document"), of which this letter forms part. Terms used in this letter shall have the same meanings given to them in the Scheme Document unless the context otherwise requires.

Your attention is drawn to the "Letter from Anglo Chinese" concerning its advice to the Independent Board Committee regarding the Proposal set out on pages 22 to 57 of the Scheme Document.

Having considered (a) the view of the Directors (excluding the non-executive and independent non-executive Directors) as set out in the section headed "Reasons for and benefits of the Proposal" in the Explanatory Statement; and (b) the advice given by Anglo Chinese and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the terms of the Scheme are on balance not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders to vote against the relevant resolutions which will be proposed at the Court Meeting and EGM to approve and implement the Scheme.

Notwithstanding the foregoing, we wish to draw your attention to the different view raised by Mr. Liu Jipeng, a member of the Independent Board Committee, to the views of Anglo Chinese with regards to the future development prospects of the Group's healthcare product business. Mr. Liu pointed out that the operating profit of the Group's healthcare product business decreased from HK$143.6 million for the financial year ended 31 March 2008 to HK$31.9 million for the financial year ended 31 March 2009, and the turnovers of "Naobaijin" and "GoldPartner" for the two months ended 31 May 2009 declined by approximately 48% and 45%, respectively, as compared to the corresponding period of the year ended 31 March 2009. In reviewing the results over the past few years, Mr. Liu Jipeng noted that there were variances of the actual financial figures from the budgeted ones for those financial periods. As such, Mr. Liu disagrees with Anglo Chinese on its view that the Group's healthcare product business may bring reasonable return to the Group in the future.

Having considered the terms of the Option Proposal and the advice given by Anglo Chinese, we consider the terms of the Option Proposal to be fair and reasonable so far as the Optionholders are concerned. However, Optionholders should note that the Option Payment under the Option Proposal is conditional upon the Scheme becoming effective. If the Scheme is not approved at the Court Meeting and the EGM and therefore does not become effective, no Option Payment under the Option Proposal will be payable to the Optionholders.

Independent Shareholders should note the generally low liquidity of the Shares in the past and may consider taking advantage of the current share price premium (which is the difference between the Cancellation Consideration of HK$0.48 per Scheme Share and prevailing market price of the Shares which was HK$0.405 as at the Latest Practicable Date) assuming the Proposal becomes effective.

Independent Shareholders should also note that one of the members of the Independent Board Committee, Mr. Ng Ming Wah, Charles, who owns 1,000,000 Shares in the Company, intends to vote in respect of the Shares he owns against the relevant resolutions to be proposed at the Court Meeting and EGM regarding the implementation of the Scheme.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Ng Ming Wah, Charles	**Andrew Y. Yan**	**Liu Jipeng**	**Cheng Fumin**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Non-executive Director*

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
英高財務顧問有限公司

The Independent Board Committee of
Stone Group Holdings Limited
27th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

31 August, 2009

Dear Sirs,

PROPOSED PRIVATISATION OF
STONE GROUP HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 166 OF THE COMPANIES ORDINANCE
AND
WITHDRAWAL OF LISTING

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to (i) the proposed privatisation of the Company by way of the Scheme and (ii) the Option Proposal (collectively known as the "Proposal"). Expressions used in this letter have the same meanings as defined in the Scheme Document dated 31 August, 2009 of which this letter forms part.

On 15 May, 2009, the Board resolved that the Company pursue the proposed privatisation of the Company by way of the Scheme. In parallel with, and conditional upon the Scheme becoming effective, the Company is extending the Option Proposal to the Optionholders. Upon the Scheme becoming effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will become wholly owned by the Interested Shareholders as described more fully below, and the Outstanding Options will be automatically cancelled and the Company will make the Option Payment to Optionholders automatically.

The Independent Board Committee, comprising all three independent non-executive Directors of the Company, namely Messrs. Ng Ming Wah, Charles, Andrew Y. Yan and Liu Jipeng, and the Company's non-executive Director, Mr. Cheng Fumin, has been formed to advise (i) the Independent Shareholders on whether the Proposal is fair and reasonable and as to voting in connection with the Scheme; and (ii) the Optionholders on whether the Option Proposal is fair and reasonable. We have been appointed to advise the Independent Board Committee accordingly. As at the Latest Practicable Date, Mr. Ng Ming Wah, Charles held 1,000,000 Shares, representing 0.05% of the issued Shares and members of the Independent Board Committee held outstanding Options as set out below:

Name of Directors	Exercise price	Outstanding Options
	(HK$)	
Ng Wah Ming, Charles	0.852	2,000,000
Andrew Y. Yan	0.852	2,000,000
Liu Jipeng	0.852	2,000,000
Cheng Fumin	0.852	1,000,000

In formulating our opinions and recommendations, we have reviewed the Board minutes approving the Proposal; the Management Loans agreement; the irrevocable agreements entered into between the Company and each of the Interested Shareholders whereby the latter agreed not to participate in the Scheme in respect of the Shares held by them and parties acting in concert with any of them; Exchange Agreements entered into between the Company and its former convertible bondholders whereby the parties agreed to replace the outstanding convertible notes into short-term debts owed to the former bondholders; independent business valuations as at 31 March, 2009 of (i) Shanghai GoldPartner Biotech Co., Ltd. which owns the distribution network for the healthcare business and in which the Company owns a 75% shareholding interest; (ii) China Cable Network Co., Ltd. in which the Company has a 12% attributable shareholding interest and (iii) a real estate development project in Shandong, the PRC and in which the Company has a 47.6% shareholding interest; the published information on the Company including its audited annual financial statements for the three financial years, the last of which ended on 31 March, 2009 and the interim report of the Company for the six months ended 30 September, 2008; management accounts of the Group for the two months ended 31 May, 2009; financial projections of the Group ending on 31 March, 2010; and share prices and trading volume of the Shares for the past three years.

We have also been given the opportunity to discuss with the management of the Company its business strategy and prospects.

We have relied on the accuracy of the information, facts and representations and the opinions expressed by the Company and the management referred to in this Scheme Document. We have assumed that the information, facts, representations and opinions were true at the time they were made and continue to be true at the date of the Scheme Document. We consider we have reviewed sufficient information to reach the conclusions set out in this letter and have no reason to believe any of the information provided to us by the management of the Company is inaccurate or that any material information has been omitted or withheld from the information supplied or the opinions expressed in the Scheme Document. We have not, however, conducted an independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, Directors, chief executive, substantial Shareholders or any associates of any of them.

In the sections that follow, we set out the principal factors that we have taken into account in arriving at our advice to the Independent Board Committee in respect of the Proposal.

TERMS OF THE PROPOSAL

Under the Scheme, all Scheme Shares held by the Independent Shareholders will, upon the Scheme becoming effective, be cancelled in exchange for the Cancellation Consideration of HK$0.48 in cash for each Scheme Share.

Under the Option Proposal, all Outstanding Options will be cancelled in exchange for HK$0.001 in cash for each Outstanding Option, subject to and conditional upon the Scheme becoming effective. Normally, the amount of the consideration to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Cancellation Consideration (i.e. the "see-through" price). As the exercise prices of all the Options are above the Cancellation Consideration, the Option Payment will be nominal. Upon the Scheme becoming effective, the Outstanding Options will be automatically cancelled and the Company will pay the Option Payment to Optionholders automatically.

The Scheme will become effective and binding on the Company, the Interested Shareholders and all holders of the Scheme Shares upon the fulfillment of the conditions set out in the section headed "Conditions of the Proposal" on pages 60 to 61 in the Explanatory Statement, otherwise the Scheme will lapse.

Upon the Proposal becoming effective, the listing of the Shares on the Stock Exchange will be withdrawn. Assuming the conditions of the Proposal are fulfilled, it is expected that the Scheme will become effective on or around 21 October, 2009 and listing of the Shares on the Stock Exchange will be withdrawn on 21 October, 2009.

As at the Latest Practicable Date, BJ Stone Investment, Mr. Duan Yongji (the Chairman and Chief Executive Officer of the Company), SGC, Wise Expand, Ready Finance and the Management Shareholders (collectively known as the "Interested Shareholders") and persons acting in concert with any of them hold in aggregate approximately 42.6% of the Shares in issue. The Scheme Shares held by Independent Shareholders who are entitled to vote at the Court Meeting account for in aggregate 57.4% of the total Shares in issue as at the Latest Practicable Date. The Management Shareholders are senior management of the Group who have, together with the other Interested Shareholders, irrevocably agreed with the Company not to participate in the Scheme. Upon the Scheme becoming effective, the Company will become wholly-owned by the Interested Shareholders and BJ Stone Investment will on its own hold 47.6% of the issued Shares. A breakdown of shareholding structure immediately upon the Scheme becoming effective is set out on page 28 of this letter. Given the interest of the Interested Shareholders in the Proposal and the above mentioned irrevocable agreements given by them, the Interested Shareholders are therefore not Independent Shareholders in relation to the Proposal and none of them will be entitled to vote on the resolution to approve the Scheme at the Court Meeting. The Interested Shareholders and persons acting in concert with any of them will abstain from voting at the Court Meeting.

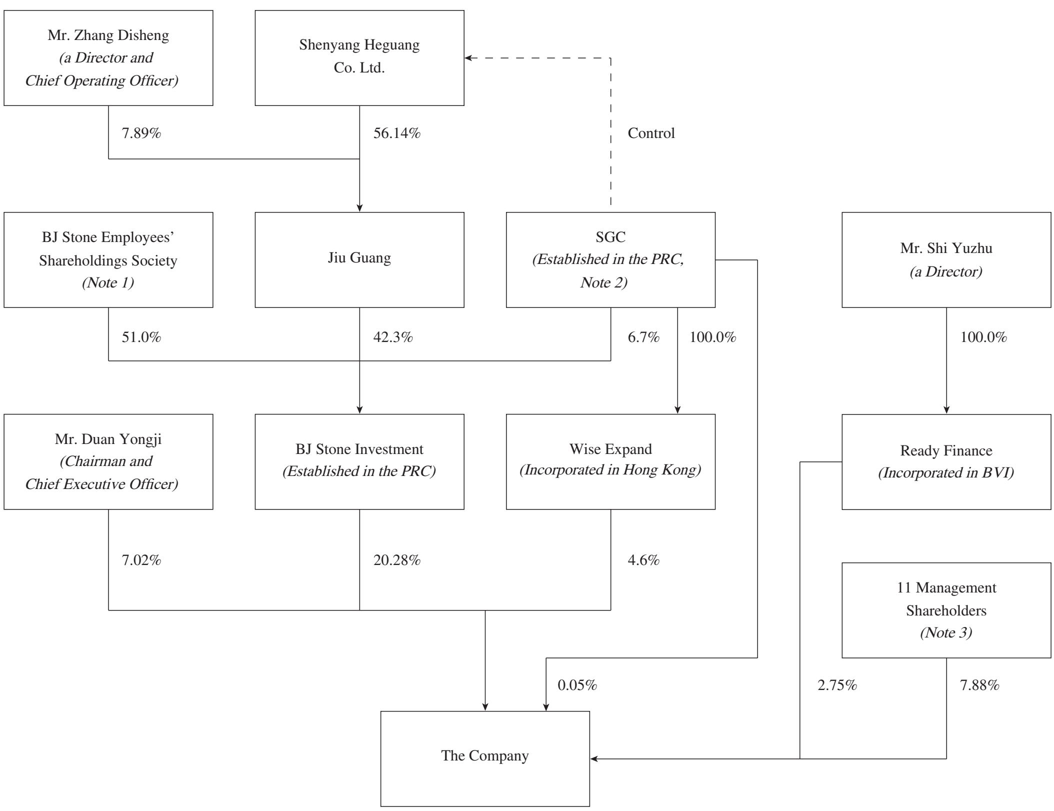
As at the Latest Practicable Date, the Board has confirmed that neither the Company nor the Interested Shareholders had received any irrevocable commitment from any Independent Shareholders to approve the Scheme at the Court Meeting.

On the basis of the Cancellation Consideration payable in cash of HK$0.48 per Scheme Share, the entire issued share capital of 2,007,149,121 Shares as at the Latest Practicable Date was valued at approximately HK$963 million. The Scheme valued the 1,152,192,732 Scheme Shares as at the Latest Practicable Date at approximately HK$553 million.

As at the Latest Practicable Date, the Company had 117,400,000 Outstanding Options which are entitled to subscribe 117,400,000 Shares at HK$0.714 per Share (in relation to 110,400,000 Options) and HK$0.852 per Share (in relation to 7,000,000 Options). On the basis of the Option Proposal Price of HK$0.001 per Option and assuming none of the Outstanding Options are exercised prior to the Record Date, the Option Proposal is valued at approximately HK$0.1 million. In the event all Outstanding Options are exercised in full prior to the Record Date, no consideration will be payable under the Option Proposal. If this happens, the total number of Scheme Shares will increase to 1,269,592,732. In this circumstance the Scheme will value the Scheme Shares at approximately HK$609 million. However, we do not expect the Outstanding Options will be exercised as the Cancellation Consideration is well below the exercise prices of these Options.

We note that Macquarie is satisfied that sufficient financial resources are available to the Company for implementation of the Proposal. The amounts of cash required to effect the Proposal with and without the exercise of the Outstanding Options are approximately HK$609 million and HK$553 million respectively. The Company will finance the cash payable under the Proposal from bank borrowings amounting to HK$262.9 million, Management Loans of an aggregate amount of HK$100,485,000 lent to the Company by Messrs. Duan Yongji and Zhang Disheng (who are both executive Directors) and Messrs. Xu Changping and Lu Fang (who are both senior management of the Group) and its own resources.

The diagram below shows the shareholding interest of the Interested Shareholders in the Company as at the Latest Practicable Date:



Note: The shares held by the Interested Shareholders and persons acting in concert account for an aggregate 42.6% of the total shares in issue as at the Latest Practicable Date.

Notes:

1. BJ Stone Employees' Shareholdings Society is a society organisation registered in the PRC. The organisation comprises existing and former employees of BJ Stone Investment.

2. SGC is collectively owned by existing and former employees of SGC and, or its subsidiaries. According to the Announcement, SGC controls Shenyang Heguang Co., Ltd.

3. As at the Latest Practicable Date, the 11 Management Shareholders and their respective shareholding interest in the Company were as follows:

Management Shareholders	**Number of Shares held**	**% of the issued Shares**
Yu Dongmei	57,692,307	2.87
Wu Huan	23,602,153	1.18
Wu Qiong	10,000,000	0.50
Yang Langtao	10,000,000	0.50
Jing Xiangdong	9,500,000	0.47
Lu Fang	9,500,000	0.47
Ma Xin	9,500,000	0.47
Xu Jingyao	9,500,000	0.47
Yu Xiangqun	9,500,000	0.47
Zhang Changji	6,000,000	0.30
Leung Suk Kam	3,456,000	0.17
Total	158,250,460	7.88

As mentioned above, upon the Scheme becoming effective, the Interested Shareholders will own the entire issued share capital of the Company as shown below (assuming none of the Outstanding Options have been exercised on or prior to the Record Date).

Interest Shareholders		Number of Shares		%
BJ Stone Investment		**407,110,053**		47.62
SGC		**1,062,000**		0.12
Wise Expand, a company wholly owned by SGC		**92,374,413**		10.80
Ready Finance, a company wholly owned by Mr. Shi Yuzhu, a Director		**55,263,157**		6.46
Mr. Duan Yongi, Chairman and CEO of the Company		**140,896,306**		16.48
Management Shareholders:				
Yu Dongmei	57,692,307		6.75	
Wu Huan	23,602,153		2.76	
Wu Qiong	10,000,000		1.17	
Yang Langtao	10,000,000		1.17	
Jing Xiangdong	9,500,000		1.11	
Lu Fang	9,500,000		1.11	
Ma Xin	9,500,000		1.11	
Xu Jingyao	9,500,000		1.11	
Yu Xiangqun	9,500,000		1.11	
Zhang Changji	6,000,000		0.70	
Leung Suk Kam	3,456,000	**158,250,460**	0.40	18.51
Total for Interested Shareholders and persons acting in concert with any of them		**854,956,389**		100.00

IMPORTANT ASPECTS OF THE PROPOSAL

Background to and reasons for the Scheme

The Proposal was initiated by BJ Stone Investment for the Board to consider. BJ Stone Investment is a substantial shareholder of the Company. It held approximately 20.28% of the issued Shares on 25 May, 2009, the date of the Announcement and as at the Latest Practicable Date, and will become the largest shareholder of the Company holding 47.62% of the issued Shares upon the Scheme becoming effective.

The Directors (excluding members of the Independent Board Committee) consider the terms of the Proposal to be attractive to the Independent Shareholders. The Company put forward to the Independent Shareholders the Scheme to privatise the Company for the following reasons:

– during the current volatile stock market conditions, the Proposal gives an immediate opportunity for the Independent Shareholders to realise their shareholding in the Company at a significant premium to the market price of the Shares during the past nine months period prior to 25 May, 2009, being the date of the Announcement;

– Independent Shareholders have limited windows of opportunity to dispose of their Shares on the Stock Exchange given the historical low trading volume of the Shares. The Proposal allows the Independent Shareholders to divest all or part of their Shares within a short period of time (of about two months from the date of the Scheme Document to the expected date when payment under the Proposal will be made) and which would not be readily available otherwise;

– the payment of the Cancellation Consideration in cash under the Proposal gives the Independent Shareholders flexibility to redeploy capital invested in the Company into other investments that they consider more attractive, having regard to the management's views that the outlook of the Group's businesses maybe adversely affected by difficult market conditions that are unlikely to improve in the near term;

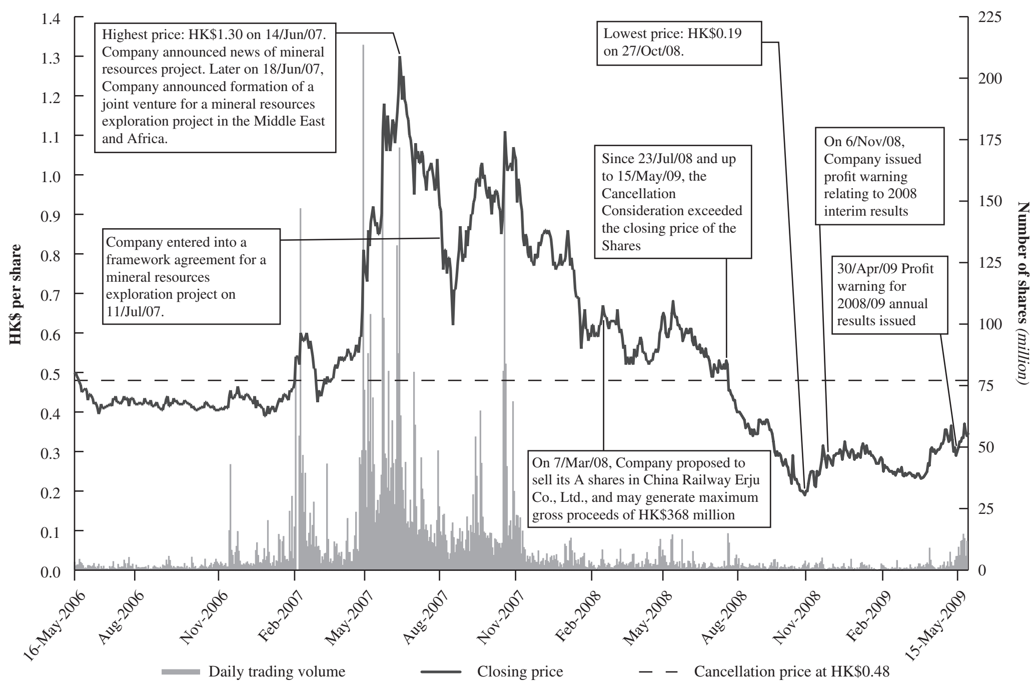
– given the nature of the Company's conglomerate business operations and small market capitalisation, the past performance of the Shares shows that there has been a lack of significant retail and, or institutional investors' interest in the Company. In the past five years before the Proposal was announced on 25 May, 2009, the Company had not raised any funds from the equity market. It is considered that the Company will be unable to take advantage of its listing status to raise funds from the capital markets in the foreseeable future or enjoy other benefits that outweigh the costs associated with maintaining the listing.

The Board has confirmed that, save for the Proposal, the Company has not received any other proposal in relation to the privatisation of the Company in the last twelve months. BJ Stone Investment, on behalf of the Interested Shareholders, has confirmed that no discussion is taking place with any third party regarding the disposal of Shares held by the Interested Shareholders.

OTHER IMPORTANT CONSIDERATIONS

Price of the Shares

Performance of the Shares over a three-year period up to the Last Trading Date on 15 May, 2009

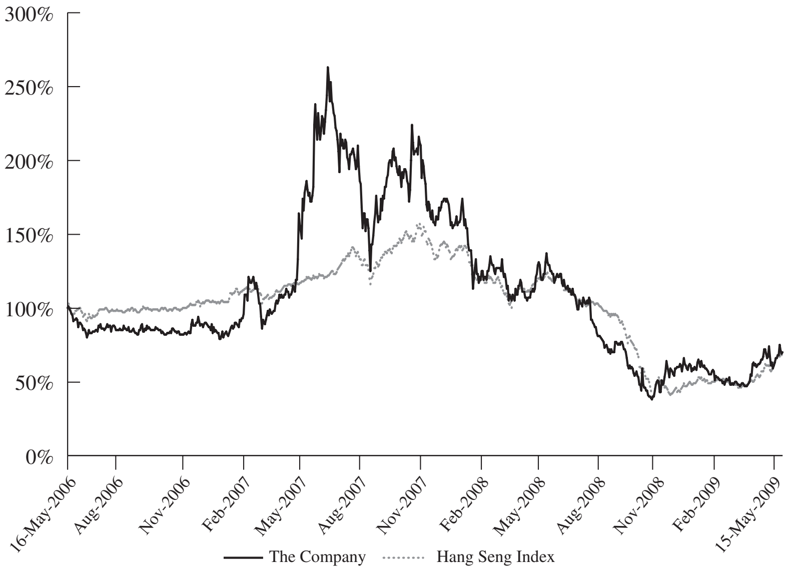


Source: *Announcements of the Company and Bloomberg*

We have considered the Cancellation Consideration in relation to the closing price of the Shares on the Stock Exchange in the past three years prior to the Last Trading Date on 15 May, 2009 and on the Latest Practicable Date, and the performance of the Shares compared against the Hang Seng Index and Hang Seng Mainland Composite Index[1]. (See the two charts below)

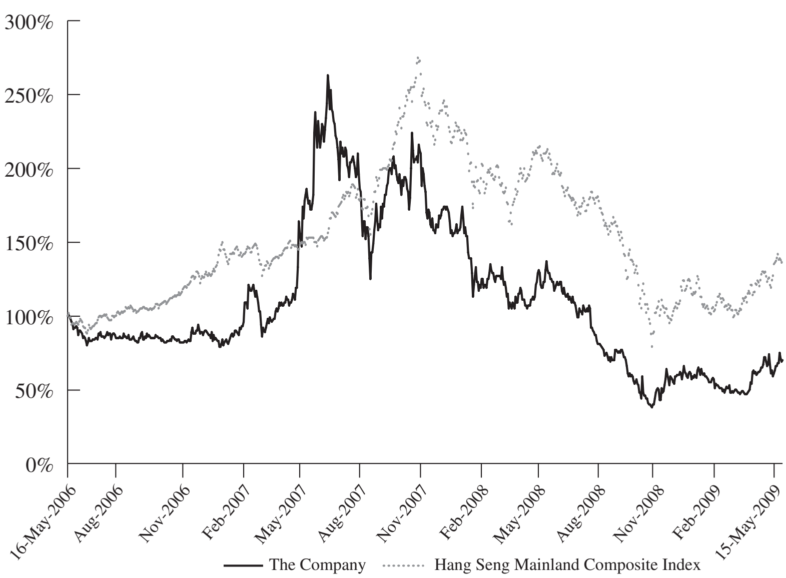
[1] *Hang Seng Mainland Composite Index measures the performance of the Hang Seng Composite Index constituent companies with over 50% of their sales revenue derived from mainland China.*

Performance of the Shares against Hang Seng Index over a three-year period up to 15 May, 2009



Source: *Bloomberg*

Performance of the Shares against Hang Seng Mainland Composite Index over a three-year period up to 15th May, 2009



Source: *Bloomberg*

Over the past three years commencing 16 May, 2006 the Shares traded above the Cancellation Consideration of HK$0.48 per Scheme Share for over a 17-month period between 5 February, 2007 and 22 July, 2008 other than during seven trading days ended on 12 March, 2007. During the three-year period under review, the highest closing price was HK$1.30 on 14 June, 2007 when the Company announced its plan to diversify into exploration of mineral resources in the Middle East and Africa. Since that date, the price of the Shares gradually decreased by 85% to the lowest closing price of HK$0.19 on 27 October, 2008 when the global stock markets experienced significant fall. In the period from 14 June, 2007 to 27 October, 2008, the market was volatile with the Hang Seng Index moving between 11,016 and 31,638. The Cancellation Consideration is 63.1% lower than the highest closing price but Independent Shareholders should note that such high share price was likely driven by the positive market sentiment in mid-2007 and investors' expectation that the Group's mineral resources business would generate substantial profits for the Group. Based on our discussions with the management of the Company, the Group's mineral resources business plan is currently deferred pending agreement of terms of the proposed transfer of exploration rights and arrangement of bank financing on terms acceptable to the Group. The Cancellation Consideration is 1.5 times higher than the lowest closing price.

The price of the Shares displayed a downward trend starting from around May, 2008 before the fall in global stock markets following the collapse of Lehman Brothers in mid-September, 2008. In a circular sent to the Shareholders by the Company on 2 May, 2008, the then management stated that the domestic austerity measures adopted by the Government of the PRC to monitor the overheated economy inevitably affected the Group's business and its financial and trading prospects. From May, 2008 until mid-September, 2008, the Shares fell some 46.1%. Since then, the global financial markets deteriorated further with stock markets in the United States, United Kingdom and Hong Kong declining by as much as 41%, 32% and 44%, respectively. During this period the fundamentals affecting the valuation of the Shares showed signs of continuing weakness as the Company issued a profit warning on 6 November, 2008 and subsequently indicated in its 2008/09 interim report that the operating environment of the Group would continue to be tense and would be affected by the global financial market turmoil. Later, the Company issued a profit warning on 30 April, 2009 in respect of the Group's 2008/09 annual results. The expected losses were caused by a significant decrease in operating profit of the healthcare products business and recognition of an impairment loss on its investment in Me To You Holdings Limited, a mobile value-added service provider in the PRC. On 16 June 2009, the Company announced the operating profit of its healthcare products business declined by approximately 78% to HK$31.88 million for the year ended 31 March 2009. Further, the Company made a full impairment loss on the goodwill and the carrying value of its investment in Me To You Holdings Limited in an aggregate amount of HK$130 million. In the past nine months period prior to the Last Trading Date, the price of the Shares traded between HK$0.19 and HK$0.38, representing a discount of 60.4% and 20.8% to the Cancellation Consideration.

During the six months prior to the Last Trading Date on 15 May, 2009, the average closing price of the Shares was HK$0.285 per share. The Cancellation Consideration represents a premium of some 68.4% over this average.

During the three months prior to suspension of trading of the Shares on 18 May, 2009, the average closing price of the Shares was HK$0.285 per Share. The Cancellation Consideration represents a premium of some 68.4% over this average.

During the one month prior to the suspension, the average closing price of the Shares was HK$0.332 per Share. The Cancellation Consideration represents a premium of some 44.6% over this average.

During the ten trading days prior to the suspension, the average closing price of the Shares was HK$0.334 per Share. The Cancellation Consideration represents a premium of some 43.7% over this average.

The Cancellation Consideration represents a premium of some 39.1% over the closing price of the Shares of HK$0.345 at 9:37 a.m. on 18 May, 2009 when trading of the Shares was suspended and on the Last Trading Date.

The Cancellation Consideration represents a premium of some 18.5% over the closing price of the Shares of HK$0.405 on the Latest Practicable Date.

Over the three-year period under review, in common with many small-sized companies listed on the Stock Exchange, the Shares underperformed the Hang Seng Index and the Hang Seng Mainland Composite Index by a considerable margin. The above charts on page 31 show that an investment in the companies comprising the Hang Seng Index or the Hang Seng Mainland Composite Index would have generated a much greater return than that could be achieved with an investment in Company.

Based on the market price over the last three years and the analysis of the price of the Shares described above, we are of the opinion that the Cancellation Consideration represents a reasonable premium over the market value of the Shares.

Business operations and past financial performance of the Group

The Group distributes a range of healthcare products, and manufactures, distributes and sells electronic and electrical products, office equipment and operates an internet café chain in the PRC. Additionally, the Group has investments in listed securities and private businesses in the PRC ranging from cable television, real estate development, biochemical product manufacturing, and mobile communication services in the PRC.

Healthcare products business

The Group distributes four types of healthcare products, namely *Naobaijin, GoldPartner, Huang Jin Xue Kang* and *Golden Wine*. According to the Company's annual reports for the last two years, *Naobajin* and *GoldPartner* are among the best selling healthcare products in the PRC. The Group began to introduce *Huang Jin Xue Kang* in early 2006. *Golden Wine* was formally launched in October, 2008 in cooperation with Health Spirits Co., Ltd. of Sichuan Yibin Wuliangye Group, a domestic Chinese wine supplier in the PRC.

The Group has a broad distribution network that comprises more than 130 branch offices and 1,700 representative offices in more than ten provinces and cities in the PRC, as well as resident establishments in over 1,600 counties and locations in the PRC.

IT electronic and internet café chain business

The Group manufactures, distributes and sells Stone branded printers, tax control equipment and distributes industrial controllers, UPS equipment, digital graphic products, computer software including management application software such as *Citrix* and *Symantec Altiris*, electronic accessories such as camera sensors for mobile phones, LCD panels and semi-conductors in the PRC.

The Group operates 78 self-owned and franchised internet cafés in Guangzhou, Dongguan and Foshan, the PRC.

Investments held by the Group

Listed securities

During the 2007/08 financial year, the Group's key investments included listed securities in SINA Corporation listed on NASDAQ and China Railway Erju Co., Ltd. listed on the Shanghai Stock Exchange. The Group disposed of all of these securities during the 2008/09 financial year. As at 31 March, 2009, the Group held 1,000,000 shares in China CITIC Bank Corporation Ltd. and 1,500,000 shares in CK Life Sciences International (Holdings) Inc. valued in total at HK$3.3 million.

Cable television

The Group has a 12% indirect attributable interest in China Cable Network Co., Ltd., which is one of the largest nation-wide cable television operators in the PRC. As at 31 March, 2009, China Cable Network owned cable networks in more than 17 cities, mainly in Jiangsu and Zhejiang provinces. and had over three million subscribers. The cable television operation has been profitable in the past few years. However, capital expenditure requirement for the cable television business is substantial. Since 2004, the Group made capital injections of over US$17 million. China Cable Network posted a net profit of RMB70.3 million (or HK$79.7 million) for the year ended 31 March, 2009 (31 March, 2008: RMB45.6 million equivalent to HK$47.6 million).

Real estate development

The Group has a 47.62% interest in a real estate development project, which is a commercial building located in Jinan City of Shandong Province, the PRC. The total costs of the project is about RMB560.0 million (equivalent to HK$635.1 million). According to an independent valuation, the construction work was 65% completed as at 31 March, 2009. Due to delays in obtaining from the authorities the requisite building certificates and construction permits which were only obtained recently, construction work of the building has been deferred. Construction work is expected to resume upon obtaining the necessary bank financing on terms acceptable to the Group. As at the Latest Practicable Date, no bank financing had been obtained. Once the loans from banks have been obtained, the management expect to take about one year to complete the construction work.

Mobile communication services

The Group has a 49.0% interest in Me To You Holdings Limited that provides wireless information services to the general public in the PRC, and delivers mobile data solutions to commercial enterprises through its nation-wide data and voice network platforms. For the year ended 31 March, 2009, Me To You Holdings Limited posted an audited net loss of RMB113.1 million, equivalent to HK$128.2 million (31 March, 2008: RMB46.2 million equivalent to HK$48.3 million).

Mineral resources exploration

The Company has a 16.7% shareholding interest in Stone Resources Limited, a joint venture company that is engaged in mineral resources exploration in the Middle East region, Africa and other countries. As at the Latest Practicable Date, Stone Resources Limited has obtained the provisional exploration license in relation to zinc, copper and lead mines in Tabaq of Yemem and has yet to make an application for the formal exploration license to the local government before conducting on-site exploration. Accordingly exploration work at Yemen had not commenced as at the Latest Practicable Date.

In Tanzania, Stone Resources has identified certain mines and is in negotiation with respective owners. As at the Latest Practicable Date, no agreements have been reached in respect of exploration.

Earnings

The tabulation below shows the breakdown of the Group's principal sources of revenue and profits for the past three financial years, the last of which ended on 31 March, 2009.

(Figures rounded to the nearest HK$ million)

	Audited year ended 31 March 2007	2008	2009
Revenue			
– Healthcare	1,129.0	1,499.2	2,143.7
– IT electronics	1,240.6	1,480.7	1,252.8
– Internet café chain	5.9	8.1	7.3
	2,375.5	2,988.1	3,403.8
Cost of sales and services	(1,631.5)	(1,926.3)	(1,857.5)
Gross Profit	744.0	1,061.7	1,546.3
Gross Profit Margin	31%	36%	45%
Other revenue	25.9	30.3	37.5
	769.9	1,092.0	1,583.8
Distribution costs	(492.8)	(777.6)	(1,366.6)
Administrative expenses	(145.2)	(183.8)	(177.9)
Other operating expenses	(30.4)	(54.4)	(45.5)
Operating income/(loss)	101.5	76.2	(6.2)
Valuation gains on investment properties	6.7	14.5	1.0
Investment income			
– realised gain	2.4	29.5	157.0
– unrealised gain	244.9	85.2	(1.4)
Other non-operating expenses	(12.2)	(12.5)	(38.0)
Finance costs	(32.3)	(34.5)	(31.6)
Share of profit/(loss) of associates			
– Me To You Holdings	(15.6)	(23.6)	(131.6)
– China Cable Network	1.7	1.7	3.7
– Real estate project	–	(0.02)	(1.1)
– Intelligent transportation system	2.8	6.9	1.6
– Others	(1.4)	0.3	(1.2)
Sub-total for share of profit/loss of associates	(12.5)	(14.7)	(128.6)
Profit/(loss) before tax	298.6	143.6	(47.7)
Income tax	(65.3)	(80.8)	(12.3)
Profit/(loss) for the year	233.2	62.8	(60.0)

(Figures rounded to the nearest HK$ million)

	Audited year ended 31 March 2007	2008	2009
Profit/(loss) attributable to Shareholders	134.3	16.5	(141.8)
Dividends paid	23.2	–	–
Earnings/(loss) per Share	8.62 cents	0.92 cents	(7.13) cents
EBITDA			
– Healthcare	121.9	149.1	39.2
– IT electronics	19.7	(11.0)	8.3
– Internet café chain	(1.1)	4.1	2.5
– Unallocated income/ (expenses)	205.5	54.0	(44.1)
Total	346.0	196.2	5.9
Segment operating income/(loss)			
– Healthcare	117.7	143.6	31.9
– IT electronics	12.6	(19.6)	(1.6)
– Internet café chain	(2.8)	2.1	0.8
– Unallocated (expenses)	(25.9)	(49.9)	(37.3)
Total	101.6	76.2	(6.2)

Source: Annual reports of and information supplied by the Company

As can be seen in the tabulation above, the only operation which consistently generated profits for the three years under review is the healthcare business. Operating profits from this business however decreased by 78% in 2009 from the previous year largely due to high marketing costs incurred for existing and newly launched products. The Group's IT electronics business had been loss making in the past two financial years in 2008 and 2009, after earning a small profit of HK$12.6 million in 2006/07. The Group's internet café chain operations earned small profits in 2008 and 2009.

For the year ended 31 March, 2008

The Group recorded a turnover of HK$2,988.1 million, representing a 25.8% year-on-year growth due to overall robust growth of the PRC economy and appreciation of Renminbi during 2007 and early 2008. Healthcare and IT electronic products contributed HK$1,499.2 million and HK$1,480.7 million, up 33% and 19% from the previous year respectively. Overall gross profit margin only improved slightly to 36% as the IT electronic business saw a decrease of 1.4 percentage point in its gross profit margin which offset improvements in profit margin of the healthcare business.

2008 was the first year healthcare products business contributed for more than half of the Group's turnover since the acquisition of the business in 2004. Gross profit margin from this business increased to 62% (2007: 55%) on the back of increasing purchasing power of consumers in the PRC and successful marketing strategies adopted by the Group. Operating income from healthcare business increased 22% to HK$143.6 million.

As a result of increased distribution costs and market competition, the IT electronic business incurred an operating loss of HK$19.6 million, representing a significant decline from the operating profit of HK$12.6 million generated in the previous year.

The Company's share of losses in Me To You Holdings was HK$23.6 million. The investment in cable television business in the PRC contributed a small profit of HK$1.7 million. During the year, the real estate development project was at a preliminary stage and contributed a loss of about HK$15,000 to the Group. The Group's other minority investments in various private businesses in the PRC contributed total profits of HK$7.2 million to the Group. In summary, the Group recorded a net loss of HK$14.7 million from its investment in associates during 2007/08, this amount of loss was similar to that recorded in the previous year.

During the year, total distribution costs increased 1.6 times to HK$777.6 million when compared to the previous year. As a result of a high cost base coupled with a decrease of HK$159.7 million in unrealised gain on listed investments and an one-off provision for inventory of HK$16 million, the Group's net profits decreased 73% to HK$62.8 million. This translates to a net profit margin of 2.1% as compared to 9.8% in the previous financial year.

For the year ended 31 March, 2009

For the year ended 31 March, 2009, the Group's performance saw a 43% growth in its turnover from healthcare business to HK$2,143.7 million, accounting for 63% of its total turnover. As a result of increased advertising efforts, sales from two key healthcare products, *Naobaijin* and *GoldPartner* recorded single digit growth and contributed 74% of the healthcare business turnover. The other healthcare products, *Huang Jin Xue Kang* and *Golden Wine* contributed a total turnover of HK$549.7 million (2007/08: HK$11.3 million). *Golden Wine* was well received by the market and generated sales of some HK$487.9 million during the five months ended 31 March, 2009.

Starting from January, 2008, the Group entered into arrangements with its supplier for *Naobaijin* whereby the Group would bear more of the advertising costs in return for lower ex-factory prices for the product. Consequently, the overall gross profit margin in respect of healthcare products improved to 65.7% from 62.4% in the previous financial year. The healthcare business posted a small operating profit of HK$31.9 million, representing a decrease of 78% from the previous year as advertising costs increased significantly. During the year, the Group's distribution costs increased about 1.8 times to HK$1,366.6 million principally for expanding its market share in the healthcare product market in the PRC and promoting the new product *Golden Wine*. Operating profit margin of the healthcare business decreased significantly to 1.5% from 9.6% in the previous year.

The Group's turnover from IT electronics and internet café chain business fell by 15% to HK$1,260.1 million owing to the slowdown of the PRC economy and reduced commercial activity during the hosting of Olympic Games in Beijing, the PRC in August, 2008. The IT electronics business was partly suspended in the one and a half months before and during the Beijing Olympic Games and adversely affected as companies in the PRC closed down or became more cost conscious during the global market turmoil, leading to a lower demand for the Group's electronic products. In order to combat the unfavourable business environment, the Group focused on retaining electronics products with higher gross profit margin and discontinued products that were less profitable, expanded its after-sales maintenance and distribution channel. As a result, the IT electronics business achieved a higher gross profit margin of 10.5% as compared to 8.0% in the previous financial year. However, on the back of a high cost base and intensified market competition, the IT electronics business remained loss making and recorded an operating loss of HK$1.6 million for the year, representing a moderate improvement from the previous year's loss of HK$19.6 million.

The overall increase in the Group's turnover to HK$3,403.8 million and gross profit margin from 36% to 45% led to a record high gross profit of HK$1,546.3 million in 2008/09 (2007/08: HK$1,061.7 million). The improved gross profits were however offset, to a significant extent, by an increase of some HK$589 million in distribution costs resulting in aggregate operating losses of HK$6.2 million from the Group's core operations in healthcare and IT electronics, before taking into account investment income.

The Group recorded a net investment income of HK$155.6 million. During the year, the Group made a gain of HK$178 million from the disposal of its entire 2.5 million shares in SINA Corporation during June and July, 2008 shortly before the collapse of the global stock markets. Later in December, 2008 and January, 2009, the Group disposed of all its holding in A-shares in China Railway Erju Co., Ltd. The share sale gave rise to a loss of HK$19 million as the price of the A-shares fell sharply.

The Group's associate, Me To You Holdings Limited, continued to be loss making. The unfavourable market conditions in the PRC had caused further delay to the launch of automobile GPS navigation services by Me To You Holdings. The Group made a full impairment loss of HK$131.6 million in respect of its investment and goodwill in Me To You Holdings. The Group's investment in the cable television business contributed a small profit of HK$3.7 million (2007/08: HK$1.7 million). In relation to the Group's investment in a real estate development project in Shandong, the PRC, the construction work was deferred due to delays in obtaining requisite building certificates and construction permits. The Group's share of losses in the property development investment was HK$1.1 million. In summary, the Group's share of losses in its investment in associates increased to HK$128.6 million (2007/08: Share of losses of associates was HK$14.7 million).

The combined effects of poor global financial market conditions and high operating costs led the Group to record losses for the first time since 2002. During the year ended 31 March, 2009, the Group posted a net loss of HK$60.0 million (2007/08: net profit of HK$62.8 million).

For the two months ended 31 May, 2009

As stated in section III headed "Material changes since 31 March 2009" in appendix I to the Scheme Document, turnover of the Group for the two months ended 31 May, 2009 decreased some 42.7% relative to the corresponding period in 2008. The Directors noted that the decrease in turnover resulted from the global financial downturn commencing from around mid-September, 2008. Turnover from the Group's core business, being healthcare products (which include *Golden Wine* a new product introduced in October, 2008) decreased some 26.3% during the two month period since 31 March, 2009. Turnover of two existing healthcare products *Naobaijin* and *GoldPartner* decreased 48% and 45% respectively when compared with the corresponding period in 2008. During the same period, the Group's IT electronic business posted a 49.9% reduction in turnover as unfavourable market conditions continued to adversely affect the Group's sales of industrial controllers, a key electronic product of the Group. As the figures mentioned above relate to the unaudited turnover of the Group and two of its businesses while net profits of the Group or its various businesses, or performance of the Group's various investments have not been mentioned in the Scheme Document, we have not placed too much reliance on the Group's turnover for the two months ended 31 May, 2009 in our consideration of the Scheme in terms of the Group's profitability.

The overall profitability of the Group is largely dependent on the performance of healthcare products business and the Group's various investments. The Group's IT electronic business did not affect, to any significant extent, the Group's profitability as it reported a small loss of HK$1.6 million for the year ended 31 March, 2009. Independent Shareholders should note that the healthcare products business is traditionally, based on performance for the past financial year, subject to seasonal factors whereby a considerable amount of sales is normally generated around mid-Autumn festival and Lunar New Year.

In assessing the earnings of the Company in relation to the Scheme, we have had particular regard to both the past performance of the Group's core operations and the management's views on the outlook of the Group. On the basis of the Group's past performance and business prospects as viewed by the management (to be described more fully below), we would not expect the market to accord a high valuation for the Group.

Earnings per share

A significant part of the Group's revenue or earnings is generated from its two different lines of business, namely healthcare products and IT electronics business. As there is no directly comparable company listed on the Stock Exchange that is engaged in these two businesses, we have compared price earnings multiple of the Company with all Hong Kong listed healthcare and electronics companies with annual revenue of around HK$1 billion and above in the latest financial year that we believe to be broadly comparable to the Company in terms of size and business nature.

For the year ended 31 March, 2009, the Group's loss per share was HK$0.07. No price earnings multiple can be computed based on the Group's results for that year.

The Group's earnings per share for the year ended 31 March, 2008 was HK$0.0092. On this basis and the Cancellation Consideration of HK$0.48 per Scheme Share, the Scheme values the Shares at a historic earnings multiple of 52.2 times. This multiple represents a premium of 226.3% and 605.4% over the average price earnings multiples of other Hong Kong listed electronics and healthcare companies as the table below shows.

Year end	Market capitalisation as at Latest Practicable Date *(HK$ million)*	Companies	Price earnings multiple *(Note 1)* *(in times)*	Net asset value attributable to equity holders *(Note 2)* *(HK$ million)*
Healthcare companies				
31-Dec-08	6,815	China Pharmaceutical Group Ltd.	6.5	4,497
31-Dec-08	4,800	Sino Biopharmaceutical Ltd.	9.5	2,229
31-Dec-08	3,576	United Laboratories International Holdings Ltd.	8.4	2,816
31-Dec-08	1,986	Lijun International Pharmacetl (Holdings) Ltd.	10	1,369
30-Jun-09	1,387	Hua Han Bio-Pharmaceutical Holdings Ltd.	4.4	1,382
31-Mar-09	848	Uni-Bio Science Group Ltd.	N/A (loss making)	1,422
31-Dec-08	737	Dawnrays Pharmaceutical (Holdings) Ltd.	5.4	714
Average price earnings multiple			**7.4**	
Electronic companies				
31-Dec-08	873	Varitronix International Ltd. *(Note 3)*	37.3	1,394
31-Dec-08	655	Man Yue International Holdings Ltd.	5.4	954
31-Dec-08	577	Wong's Kong King International (Holdings) Ltd.	9	1,199
31-Mar-09	467	Gold Peak Industries (Holdings) Ltd.	5.4	1,344
31-Dec-08	444	Kith Holdings Ltd	13.8	471
31-Dec-08	220	Topsearch International (Holdings) Ltd.	N/A (loss making)	1,173
30-Sep-08	166	Sunway International Holdings Ltd.	N/A (loss making)	989
31-Mar-09	144	AV Concept Holdings Ltd. *(Note 4)*	25.5	352
Average price earnings multiple			**16.0**	
31-Mar-09	**The Company as of the Last Trading Date based on 2008/09 earnings**		**N/A (loss making)**	
31-Mar-08	**The Company as of the Last Trading Date based on 2007/08 earnings**		**37.5**	
	The Company as implied under the Scheme based on 2007/08 earnings		**52.2**	

Note:

1. Price earnings multiple is calculated by dividing the closing price of the respective shares as at the Last Trading Date by the basic earnings per share for the latest financial year.

2. These figures represent the net asset value attributable to equity holders of the respective company as at the latest balance sheet date on which the company's financial statements were published.

3. The price earnings multiple of Varitronix International was unusually high as Varitronix International recorded a significant decrease in earnings per share from HK$0.805 in 2007 to HK$0.047 in 2008.

4. The price earnings multiple of AV Concept was unusually high as AV Concept recorded a turn around result in the latest financial year to HK$4.3 million from a loss of HK$69.9 million in the previous year.

Source: Annual reports of respective companies and Bloomberg

The price earnings multiple for the last 12 months prior to the Announcement implied by Hang Seng Mainland Composite Index and Hang Seng Hong Kong SmallCap Index are 12.75 and 6.33 times, respectively. The multiple of 52.2 times implied under the Scheme (based on 2007/08 earnings published prior to the Announcement) is significantly higher than that implied by Hang Seng Mainland Composite Index and Hang Seng Hong Kong SmallCap Index. We have however not placed too much reliance on the premium to price earnings multiple as the Company was loss making in the most recent financial year.

Financial position

We have considered the financial position of the Company and its net assets value. Tabulated below is a summary of the balance sheet of the Group as at 31 March, 2007, 2008 and 2009.

(Figures rounded to the nearest HK$ million)

		Audited as at 31 March	
	2007	**2008**	**2009**
Current assets			
Trading securities	894.6	958.4	3.3
Trade and other receivables	513.3	753.6	745.7
Inventories	193.2	190.9	185.9
Available-for-sale investments	–	–	22.1
Cash and cash equivalents	477.2	553.0	1,019.1
	2,078.3	2,455.9	1,976.0
Non-current assets			
Property, plant and equipment			
– Property under development	17.4	27.3	40.5
– Land and buildings held for own use	90.1	92.7	120.3
– Furniture, fixtures and fittings	7.2	9.4	22.7
– Plant, machinery and equipment	15.3	18	24.7
– Motor vehicles	12.7	14.7	19.6
Sub-total	142.7	162.1	227.8

		Audited as at 31 March	
	2007	**2008**	**2009**
Investment properties	96.3	112.3	93.0
Goodwill arising from acquisition of a distribution network	1,136.6	1,136.6	1,136.6
Other intangible assets	33.3	34.3	32.9
Interest in associates	388.2	585.2	439.4
Deferred tax assets	7.2	14.6	124.0
Other financial assets			
– Investment in mineral resources exploration	–	10.0	10.0
– Investment in biochemical business	–	38.9	38.9
– Others	44.3	6.7	4.1
Sub-total	44.3	55.6	53.0
	1,848.6	2,100.7	2,106.7
Total assets	3,926.9	4,556.7	4,082.7
Liabilities			
Short-term bank loan	17.2	151.2	54.4
Long-term bank loan	4.4	1.9	–
Other short-term loans from third parties and former note holders	117.2	311.2	252.0
Trade and other payables	286.7	376.4	599.5
Current taxation	98.2	143.2	203.4
Convertible notes – short term	–	318.2	57.0
Convertible notes – long term	560.4	86.1	–
Deferred tax liabilities	1.0	3.8	8.0
Total liabilities	1,085.1	1,392.0	1,174.3
Total equity/net assets	2,841.8	3,164.7	2,908.4
Total equity/net assets attributable to Shareholders	2,392.6	2,716.3	2,658.9
Net tangible assets (being net assets less goodwill and other intangible assets) attributable to Shareholders	1,222.7	1,545.4	1,489.4

In the past three financial years, the Group was in a strong financial position with net assets ranging between HK$2,841.8 million and HK$3,164.7 million as at balance sheet date. There were no significant movement in the Group's financial position other than the recent realisation of publicly traded security investments and the consequent increase in cash reserve during 2009. The Group had cash and cash equivalents of HK$1,019.1 million as at 31 March, 2009. The net cash level was around HK$655.7 million after deducting short term debts, including debts of HK$309 million owed to existing and former convertible holders and other third parties. Based on our discussions with the management of the Company, the net cash balance of HK$655.7 million is equivalent to the average general working capital required for the Group for about 2 to 3 months, assuming the Group has no significant capital commitment.

As at 31 March, 2009, the Group's investment properties in Hong Kong and Beijing amounted to HK$93.0 million in total and were independently revalued at the financial year end date.

The Group's interest in its associates showed an aggregate carrying value of HK$439.4 million as at 31 March, 2009, representing largely the Company's cost of investment in China Cable Media Group Ltd. (of HK$305.1 million) and a real estate development project in Shandong, the PRC (of HK$103.0 million). Based on the independent valuations provided by the Company, no impairment loss had been made in respect of these investments as at 31 March, 2009 since each of these valuations exceeded their book value. According to the relevant shareholders' agreement with respect to the two investments mentioned above, it is noted that the Company has a minority interest in each of these investments and has no board or management control over these investments or disposition of the underlying assets. We have therefore not reassessed the Group's interests in these two investments based on the independent valuations obtained. The Company's interest in Me To You Holdings Limited was fully written down as a full impairment loss was provided during 2008/09.

As mentioned above, during the 2008/09 financial year, the Group disposed of its investments in SINA Corporation, the A-shares in China Railway Erju Co., Ltd. and various Hong Kong publicly traded securities, generating a net profit of HK$157.0 million (2007: realised gain on trading securities HK$29.5 million). As at 31 March, 2009, the Group had a listed security investment portfolio comprising Hong Kong listed shares in China CITIC Bank Corporation Ltd and CK Life Sciences International (Holdings) Inc. valued at HK$3.3 million. As a result of the disposal of listed shares and a higher turnover from healthcare business, the Group had cash and cash equivalents of HK$1,019.1 million as at 31 March, 2009.

The principal intangible asset of the Company is goodwill with a carrying value of some HK$1,136.6 million, or HK$0.57 per Share as at 31 March, 2009. This goodwill arose from the Company's acquisition in 2004 of the entire issued shares in Central New International Limited which owns a 75% interest in Shanghai GoldPartner Biotech Co., Ltd. Shanghai GoldPartner Biotech owns a broad distribution network covering Jiangsu, Zhejiang and other provinces of the PRC. This network is essential to distribution of the Company's healthcare products such as *Naobaijin, Goldpartner, Huang Jin Xue Kang* and *Golden Wine*. As the value of the Company's attributable interest in Shanghai GoldPartner Biotech Co. Ltd. exceeded the book value of the goodwill, no impairment was made to the audited accounts of the Group as at 31 March, 2009.

The other intangible assets of some HK$32.9 million, or HK$0.016 per Share as at 31 March, 2009 are mainly product trademarks, patent rights of the Group's healthcare products and computer software acquired by the Company.

In view of the above analysis and the nature of the assets of the Group, we have used the Group's audited net asset value and net tangible asset value as at 31 March, 2009 as our basis of comparison with the Cancellation Consideration.

Net assets

As at 31 March, 2009, the audited consolidated net asset value attributable to Shareholders of the Group was HK$2,658.9 million, or HK$1.32 per Share, and the consolidated net tangible asset value attributable to Shareholders of the Group was HK$1,489.4 million, or HK$0.74 per Share. The Cancellation Consideration of HK$0.48 per Share is at a discount of some 64% to the consolidated net asset value and about 35% to the consolidated net tangible asset value as at 31 March, 2009. On either basis, the discount is substantial. In assessing this discount, we have considered the following factors:

- the Shares have been trading in the past three years prior to the Last Trading Date on 15 May, 2009 at a 67% discount to the Group's average net book value per Share of HK$1.43. Over this three year period the average closing price of the Shares was approximately HK$0.54, which is at a discount of between 27% and 33% to the audited consolidated net tangible asset value per Share as at balance sheet dates during the period. Of the 15 Hong Kong listed companies that are either engaged in electronics or healthcare businesses and are broadly comparable to the Group, 7 of these companies traded at a discount of 50% or more of their net asset values. Net asset values of these companies are shown in the table on page 42 to this letter It appears that large discount to net asset value is a feature common to small cap companies like the Company.

- the value of the Share as determined by the market in the past three years appears to be the price at which investors are prepared to pay for it as a non-controlling interest and not a break up value of the Group's underlying net assets. The Company had since its listing been controlled by various members of the Interested Shareholders. In particular, since the listing of the Shares on the Stock Exchange in 1993 and up to 1998, SGC controlled over 50% of the issued Shares. Since then and up to the Latest Practicable Date SGC, BJ Stone Investment, Mr. Duan Yongji and Mr. Shi Yuzhu collectively controlled between 34.3% and 42.1% of the issued Shares. These shareholders together with the Management Shareholders controlled in aggregate 42.6% of the issued Shares on the Last Trading Date and on the Latest Practicable Date. Given the current shareholding structure, Shareholders who are not members of or associated with the Interested Shareholders cannot implement proposals which would result in the underlying net assets of the Group being realised or returned to Shareholders without the support of the Interested Shareholders.

The two factors above primarily show that the Cancellation Consideration represents a premium to the investment value of a minority interest in the Company and has not reflected the value of the Group's underlying net assets. In view of the extent of the discount to net asset value implied by the Cancellation Consideration, and in the context of a privatisation of the Company, we are of the opinion that the Cancellation Consideration is inadequate in terms of net asset value.

Future prospects of the Group

In general, the management are of the view that the global financial crisis had adversely affected the economy and operating environment in the PRC and this in turn had affected the Group's healthcare and IT electronic businesses and various investments in the PRC. In the Group's 2008/09 interim report, it is stated that the management believes that the Group may not post satisfactory annual results in a difficult operating environment. The actual net loss attributable to shareholders of the 2008/09 financial year was HK$141.8 million. According to the National Bureau of Statistics of China, gross domestic product growth rate of the PRC fell to 6.1% in the first quarter of 2009 from 9.0% in 2008 and the growth rate of retail sales of consumer goods decreased to 15.0% in the first quarter of 2009 from 21.6% in the previous year. The management expect that the difficult operating environment in the PRC will endure for a considerable period of time and that will affect the businesses of the Group.

As stated in the Group's 2008/09 interim report, the business environment of the Group had been affected by corporate bankruptcies, unemployment and anaemic consumption in the PRC. The management are of the view that the Group's customers are likely to cut spending in purchasing new printers or industrial controllers as part of their cost control measures and sales from healthcare products may fall as consumer spending is expected to be deterred by unstable career or lower income. In the 2008/09 interim report, it is further stated that the Group will possibly record further unrealised losses on its share investment during an anticipated weak stock market. The total unrealised losses on its share investment amounted to HK$1.37 million in the 2008/09 financial year.

Healthcare products

The management consider that the global economic turmoil will likely continue to affect sales from its existing products such as *Naobaijin*, *GoldPartner* and *Huang Jin Xue Kang* in the coming year. The Group will continue to adopt its existing sales strategies, which have been effective in the recent years, to promote growth in the sales of *Naobaijin* and *GoldPartner*. Sales of *Huang Jin Xue Kang*, a relatively new product, will gradually be expanded to the whole of the PRC (as stated in the Group's 2007/08 annual report). Further, one of its existing popular products namely *Naobaijin* has been in the market for more than ten years and the management of the Company believes that this product may potentially be replaced by other new products in the market in the absence of a large marketing campaign. As such, and as stated in the Group's annual report for the year ended 31 March, 2009, the management expect that the Group will continue to incur significant advertising expenses and sales commission in the near term in order to secure market share for its products. The management note that the ratio of turnover to advertising expenses for the Group's healthcare business has gradually declined in the past three years. In particular, such ratio decreased from 2.5:1 in 2006 to 1.7:1 in 2008. It is important for the Company to monitor such ratio as a major cost of the healthcare product business is advertising expense. While the management will, based on past experience, use their best endeavours to maintain a good balance between advertising expenses and expected turnover from healthcare products, it has often proved difficult as there is usually a few months gap from initiating an advertising programme to generating sales from healthcare products during peak seasons.

The management expect sales from its new product *Golden Wine* will continue to grow in the near future. As mentioned above, *Golden Wine* generated considerably high sales of some HK$487.9 million during the five month period ended 31 March, 2009. Such sales on an annualised basis represent about 70% of the Group's sales from healthcare products other than *Golden Wine* in 2008/09.

In summary, the management are concerned that the overall return from the Group's healthcare business in the long term may not be as high when compared to the returns previously achieved by the Group if the Group is not successful in maintaining a reasonable linkage between advertising expenses and actual sales generated from healthcare products. Based on our review of the Group's internal financial projection and discussions with the management of the Company, and on the basis of an anticipated slight decrease in sales from existing healthcare products, a full year sales contribution from *Golden Wine* and improved control over advertising expenses, it is expected that the Group's healthcare business may still provide a reasonable return in the near term, albeit possibly at a relatively lower level than that in the past.

IT electronics

The IT electronics business had been loss making in the past two financial years, the last of which ended on 31 March, 2009. In the past, while efforts were made to restructure, sell or close down various operating entities within the IT electronics business with a view to improving its profitability, this business segment remained unprofitable. Additionally, the downturn of the global financial markets starting from mid-September, 2008 had led to shrinkage in the sales of the Group's key electronic products. These products were industrial controller products, tax control products and computer software, the sales of which represented some 85% of the Group's IT electronics business. The management may consider selling some of the loss-making product lines in the near future. Taking all these into account and in the absence of a restructuring of the business, the management expect the IT electronics business to be loss making in the next two years.

Internet café chain

The management expect the Group's internet café chain business to remain steady in the near future. In view of the past performance of this business and anticipated increase in market competition, the management do not expect this business to generate substantial profits to Shareholders in the near term.

Investments in cable television

With an established television network that covers 17 cities mainly in the Yangtze River Delta area and a subscriber base of over 3 million, the management expect a single digit growth in the cable television business in terms of revenue and number of subscribers in the next few years. The capital expenditure of the business for the next three years is expected to be in the region of HK$1.3 billion or more, which is intended to be applied to migrating the current analogue broadcasting format to digital broadcasting format, enhancing the network and acquisitions of suitable cable television operators outside the Yangtze River Delta region in order to increase the subscriber base. As such, it is expected that the Group would be required to provide additional funding as a shareholder and this may exert pressure on the Group's working capital. The management expect the cable television business to remain profitable. Given the development plan and capital expenditure required for the coming years, the management do not expect that the Group will receive dividend income from its investment in the cable television business.

Real estate development project in Shandong

The real estate development project in Shandong is currently deferred pending the obtaining of the requisite bank financing on terms acceptable to the Group. The Group is in discussions with banks about arranging bank loans for the project and no definitive agreement had been reached as at the Latest Practicable Date. The management expect the real estate project to be completed one year after the bank financing is in place. In the absence of any prospective bank financing that will be obtained and required for resuming the project, the management do not expect that the Group will receive any income from its investment in the near term.

Me To You Holdings – mobile communication service

The management expect that the recent PRC government policy will likely lead to cooperation between telecommunication operators and content providers which means that less content providers will be using the mobile communication services provided by Me To You Holdings. The proposed launch of automobile navigation services were delayed during 2008/09 as a result of the effects of the global financial crisis on the automobile industry in the PRC. Such services were launched in May, 2009 and generated a small revenue so far. As the automobile navigation services have only been launched recently, the management do not expect that this business will generate substantial profits for the Group in the near term.

Other investments

The Group's other investments (including the mineral resources exploration business and biochemical products) are either small in size or at a preliminary stage. The management do not expect these investments to generate substantial profits in the near term.

Future Intentions of the Interested Shareholders regarding the Company

Upon the Scheme becoming effective, the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the effective date of the Scheme, which is currently scheduled to be on 21 October, 2009. The Company will notify the Independent Shareholders by way of a press announcement of the exact dates on which the Scheme and the withdrawal of the listing of the Shares will become effective.

If the Scheme is not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn. The Company will remain to be a listed company in Hong Kong and its existing businesses will be maintained

The Company had in the past considered possibility to restructure its business operations and asset realignment that involved acquisitions and, or divestment of existing businesses, investments and, or assets. Some examples are the acquisition of a number of established healthcare products in the PRC in 2004 and the establishment of a joint venture to develop mineral resources exploration businesses back in 2007. As at the Latest Practicable Date, the Company was not in discussions with any third party, and has not entered into any legally binding agreement with respect to potential business restructuring, acquisitions or divestment of business or assets of the Group.

Upon the successful privatisation of the Company, the Interested Shareholders intend to continue to assess suitable opportunity for restructuring the Company's operations and realigning its assets. Further, it is expected that the existing businesses of the Group will be maintained upon the implementation of the Proposal. The Interested Shareholders will be solely responsible for the funding, or procuring the requisite funding, for the Group's business in the future.

Liquidity of the Shares

The average daily volume of trading in the Shares over the periods prior to the Last Trading Date on 15 May, 2009 is set our below:

Over past twelve months	2,053,704 Shares (or 0.10% of the issued share capital of the Company) per day with an average value of HK$0.346 per Share
Over past six months	2,005,532 Shares (or 0.10% of the issued share capital of the Company) per day with an average value of HK$0.285 per Share
Over past three months	2,903,852 Shares (or 0.14% of the issued share capital of the Company) per day with an average value of HK$0.285 per Share
Over last ten trading days	9,427,200 Shares (or 0.47% of the issued share capital of the Company) per day with an average value of HK$0.334 per Share
On the Last Trading Date	11,720,000 Shares (or 0.58% of the issued share capital of the Company) with a value of HK$0.345 per Share

The Shares were not traded regularly in the twelve month period before the Announcement and on most trading days, the Shares traded on small volumes. This is likely due to the small market capitalisation of the Company being some HK$692 million as at the Last Trading Date on 15 May, 2009, and a low public float valued at some HK$398 million on 15 May, 2009, being 1,152 million Shares held by parties unconnected with the Interested Shareholders).

In view of the low historical liquidity of the Shares, we consider that the Scheme presents a good opportunity for Independent Shareholders to realise their investment in the Company at the Cancellation Consideration which carries a premium to trading prices of the Shares since 23 July, 2008.

Other Privatisations

We have compared the Cancellation Consideration with other successful or pending privatisations in Hong Kong since 1 January, 2007, in terms of the premium or discount of the cash consideration offered in other privatisations in Hong Kong to the prevailing trading price and net asset values of the shares in the companies being privatised.

Comparable Transactions Analysis

Date of initial announcement	Company	Offer/ cancellation price per share *(HK$)*	Premium/(discount) of offer price to average share price before the announcement 1 Day	1 Month	3 Month	6 Month	Premium/ (discount) to reported NAV	Result
1-Mar-07	Pacific Century Insurance Holdings Limited	8.18	41.5%	60.6%	71.4%	85.1%	142.5%	Successful
9-Mar-07	Tom Online Inc.	1.52	33.3%	16.8%	5.7%	11.9%	119.5%	Successful
19-Apr-07	Shimao International Holdings Limited	1.05	50.0%	47.4%	44.6%	42.3%	38.1%	Successful
14-Jun-07	Chia Hsin Cement Greater China Holding Corporation	2.26	2.3%	18.6%	45.0%	58.2%	46.5%	Successful
7-Dec-07	Lei Shing Hong Limited	10	11.2%	37.4%	53.6%	75.4%	68.7%	Successful
28-Feb-08	Mirabell International Holdings Limited	6	15.2%	15.6%	18.4%	19.9%	163.9%	Successful
2-Jun-08	Wing Lung Bank Ltd.	156.5	6.5%	8.3%	24.0%	45.0%	206.8%	Successful
2-Jun-08	China Netcom Group Corporation (HK) Limited	27.87	3.0%	15.9%	22.0%	20.8%	93.2%	Successful
10-Jun-08	CITIC International Financial Holdings Limited	7.6	33.3%	43.1%	64.3%	67.2%	52.1%	Successful
2-Dec-08	GST Holdings Limited	3.38	77.9%	107.9%	65.0%	47.5%	135.5%	Pending
22-Dec-08	Shaw Brothers (HK) Limited	13.35	64.8%	74.1%	54.6%	-2.7%	169.7%	Successful
12-Mar-09	Delta Networks, Inc.	2.2	49.3%	84.9%	109.5%	70.7%	12.4%	Successful
19-May-09	Nam Tai Electronic & Electrical Products Ltd.	1.52	2.0%	5.3%	45.8%	83.5%	247.6%	Pending
	Average		30.0%	41.2%	48.0%	48.1%	115.1%	
	Median		33.3%	37.4%	45.8%	47.5%	119.5%	
	Minimum		2.0%	5.3%	5.7%	-2.7%	12.4%	
	Maximum		77.9%	107.9%	109.5%	85.1%	247.6%	
Cancellation Consideration under the Scheme		0.48	39.1%	44.7%	68.4%	68.2%	(63.8%)	

Note: The companies listed in the table above are engaged in a variety of businesses and are different from the Company in terms of business activity, size of operations and market capitalisation.

Source: *Circulars of respective companies and Bloomberg*

The analysis above shows that the premium to trading prices of the Shares implied under the Cancellation Consideration is in line with the average premium to past one-month trading prices in other privatisation proposals. When compared to past three and six-month trading prices, the premium to trading price implied under the Cancellation Consideration is higher than the premium of recent successful privatisations. Of the more recent successful privatisation proposals since the beginning of 2008, the average premium to historic three-month trading prices before announcement is 50.5%, and which is lower than the premium implied under the Cancellation Consideration.

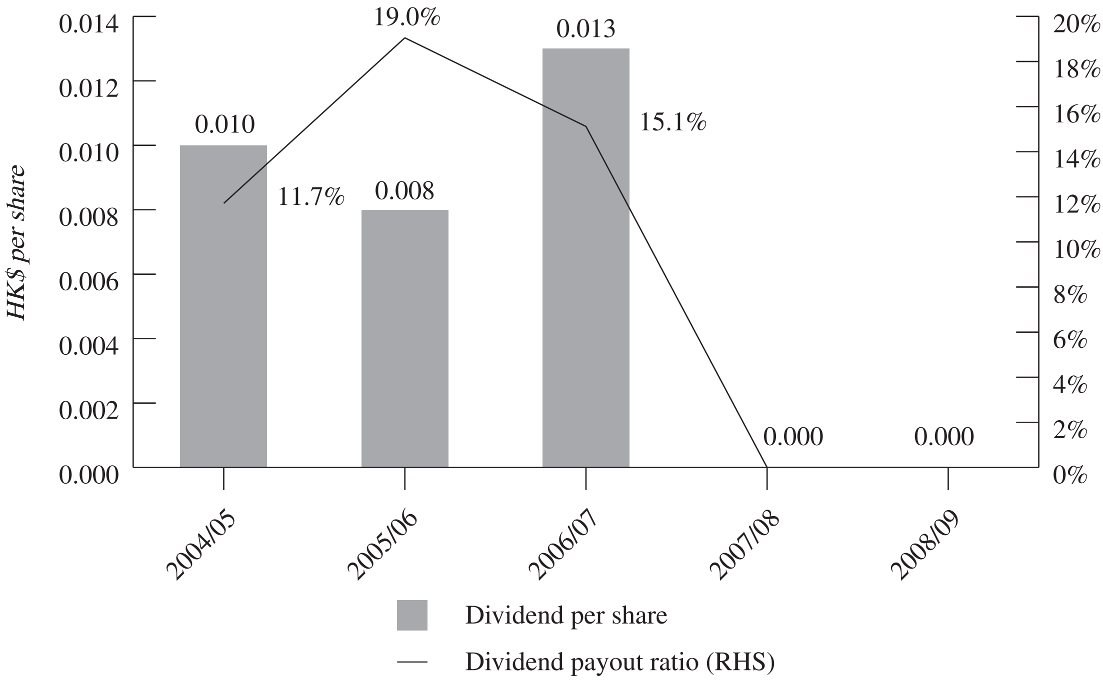
In addition, the Cancellation Consideration implies a 63.8% discount to the Group's net asset value as at 31 March, 2009 while other successful or pending privatisation proposals referred to in the table above imply an average premium over book value of about 115%.

Independent Shareholders should note that different stock market conditions, businesses and sizes of the companies involved in other privatisation proposals referred to above may lead to different premium of offer or cancellation consideration when compared to the current Proposal.

Dividend

As the tabulation below shows, the Company has maintained a relatively low dividend distribution in respect of the three financial years, the last of which ended on 31 March, 2007. The Company did not pay any dividend for the subsequent two financial years in 2007/08 and 2008/09. Although the Group made a net profit of HK$62.8 million for the year ended 31 March, 2008, no dividends were paid as the profits were retained for developing the Group's business. The Group recorded a net loss for the year ended 31 March, 2009 and no dividends were paid in that year.

Dividends paid per Share and Dividend Payout Ratio of the Company



Notes:

1. Dividend payout ratio (right hand side of the chart) is calculated by dividing annual dividend paid by annual profit attributable to equity shareholders.

2. The dividend paid of HK$0.01 per share shown above represents the dividend paid for the 15 months period ended 31 March, 2005 as the Company changed its year end from 31 December to 31 March in 2005.

Source: Annual reports of the Company

Based on our discussions with the management of the Company, the Company's dividend policy is to pay a moderate proportion of its profits as dividends to the Shareholders in the event the Company earns a profit in a financial year after setting aside necessary funds for general working capital and developing the Company's existing and new businesses. The Board understands that the Group is unlikely to pay dividends to the Shareholders for the foreseeable future given the management outlook for the Group and the Group's expected funding requirements for its business expansion in the PRC. (Please refer to pages 65 to 67 in the Scheme Document for details of the management outlook for the Group.)

As the Company did not pay dividends in the past two financial years, we have not considered the dividend yield implied under the Scheme.

THE OPTION PROPOSAL

Under the Share Option Scheme, there are two tranches of Outstanding Options with different exercise prices. The first tranche relates to 110,400,000 Options of which holders of these Options are entitled to exercise their Options that confer rights to subscribe for Shares at an exercise price of HK$0.714 per Share. The remaining tranche relates to 7,000,000 Options for which the exercise price is HK$0.852 per Share. For both tranches, each Option will upon exercise entitle the Optionholder to be allotted with one Share. The Shares that are issued upon exercise of the Options will form part of the Scheme Shares. Options that are not exercised or tendered and validly accepted under the Option Proposal will lapse in accordance with the terms of the Share Option Scheme. Of the total 117,400,000 Outstanding Options, certain Interested Shareholders, namely Mr. Duan Yongji, Mr. Shi Yuzhu and the Management Shareholders held 15,000,000, 5,000,000 and 10,400,000 Options as at the Latest Practicable Date. These Options held by Interested Shareholders are subject to the Option Proposal. For the past 16 month period prior to 25 May, 2009, being the date of the Announcement, the Outstanding Options had been out-of-money in that their exercise prices exceed the trading price of the Shares or the Cancellation Consideration. The Option Proposal Price is therefore a nominal price of HK$0.001 in accordance with the Takeovers Code.

During the period after the announcement of the Proposal on 25 May, 2009 until the Latest Practicable Date, the Outstanding Options remained out-of-money and their exercises prices remained above the Cancellation Consideration and trading price of the Shares.

In the current circumstance where the exercise prices of Outstanding Options exceed the Cancellation Consideration, a nominal consideration should be offered for the Outstanding Options. We consider that the nominal cash consideration of HK$0.001 per Outstanding Option offered under the Option Proposal is fair and reasonable.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons as summarised below, we consider the terms of the Scheme to be on balance not fair and reasonable as far as the Independent Shareholders are concerned.

- The Cancellation Consideration carried a substantial discount of some 63.8% to the latest reported net asset value of the Group as at 31 March, 2009. Independent valuations were conducted in respect of the Group's minority investment in China Cable Network Co., Ltd. and a real estate project in Shandong as at 31 March, 2009. As all of these valuations exceeded the corresponding book values of the assets being valued, no impairment loss was provided for in the Group's financial statements for the year ended 31 March, 2009. In the circumstance, we consider the Cancellation Consideration to be inadequate in terms of net asset value;

- Additionally, notwithstanding the anticipated adverse effects from the global financial turmoil, the future prospects of the Group are expected to remain stable and the Group's core healthcare products business in particular may still provide a reasonable return to the Group in the near term. In light of this, we consider the Cancellation Consideration to be inadequate.

- Independent Shareholders should however note that the performance of the Shares had been volatile. Over the past three years commencing 16 May, 2006 the Shares traded above the Cancellation Consideration of HK$0.48 for over a 17-month period between 5 February, 2007 and 22 July, 2008 other than during seven trading days ended on 12 March, 2007. Subsequently and following the significant fall in global financial markets in around mid-September, 2008, the price of the Shares fell and traded below the Cancellation Consideration. During the period between the Last Trading Date and up to the Latest Practicable Date, the Shares traded between HKD0.345 and HKD0.43. The Cancellation Consideration represented a small premium of about 20.0% to the average closing price of the Shares during this period;

- The Cancellation Consideration carried a reasonable premium of about 44.7% and 68.4% to historic trading prices of the Shares in the past one and three months prior to the Announcement date;

- In the past twelve months, the liquidity of the Shares was low with an average daily trading volume of 2,053,704 Shares, or 0.10% of the issued share capital of the Company. The Scheme provides the Independent Shareholders with an opportunity to readily realise their investments in the Shares which may not be available otherwise;

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote against the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve and implement the Scheme.

For the reasons described in the section headed "The Option Proposal", we consider the terms of the Option Proposal to be fair and reasonable as far as the Optionholders are concerned. However, Optionholders should note that the Option Payment under the Option Proposal is conditional upon the Scheme becoming effective. If the Scheme is not approved at the Court Meeting and the EGM and therefore does not become effective, no Option Payment under the Option Proposal will be payable to the Optionholders.

Independent Shareholders should note the generally low liquidity of the Shares in the past and may consider taking advantage of the share price premium, which is the difference between the Cancellation Consideration of HK$0.48 per Scheme Share and prevailing market price of the Shares (which was HK$0.405 as at the Latest Practicable Date) assuming the Proposal becomes effective.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited

Stephanie Wong
Director

This explanatory statement constitutes the statement required under Section 166A of the Companies Ordinance.

SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES

INTRODUCTION

The Board announced on 25 May 2009 that the Company intended to put forward the Proposal to privatise the Company by way of a scheme of arrangement under Section 166 of the Companies Ordinance. The Company proposed that all Scheme Shares would be cancelled in exchange for HK$0.48 in cash for each Scheme Share.

The purpose of this Explanatory Statement is to explain the Proposal and its effects, and to give Shareholders other relevant information.

The attention of Shareholders is particularly drawn to the following sections of this document: (a) the "Letter from the Board" set out on pages 11 to 19 of this document; (b) the "Letter from the Independent Board Committee" set out on pages 20 to 21 of this document; (c) the "Letter from Anglo Chinese" set out on pages 22 to 57 of this document; and (d) the "Scheme of Arrangement" set out on pages 187 to 192 of this document.

THE PROPOSAL

The Scheme

It is proposed that subject to fulfillment or waiver (as applicable) of the conditions of the Proposal as described below, the Proposal will be implemented by way of the Scheme, which will involve the cancellation of all the Scheme Shares and the reduction of the issued share capital of the Company under Section 58 of the Companies Ordinance. Under the Scheme, in consideration of the cancellation of the Scheme Shares, each Independent Shareholder will be entitled to receive the Cancellation Consideration, being HK$0.48 in cash, from the Company for every Scheme Share held.

As at the Latest Practicable Date, there were 2,007,149,121 Shares in issue out of which the Independent Shareholders were interested in 1,152,192,732 Shares, representing approximately 57.4% of the issued share capital of the Company.

The Option Proposal

In accordance with the terms of the Share Option Scheme, Optionholders are entitled to exercise their Options, which confer rights to subscribe for Shares at a price of HK$0.714 per Share (in relation to 110,400,000 Options) and HK$0.852 per Share (in relation to 7,000,000 Options), in full or in part at any time up to the Record Date. The Shares issued upon exercise of the Options in accordance with the terms of the Share Option Scheme will form part of the Scheme Shares. Options which are not exercised in accordance with the terms of the Share Option Scheme will lapse.

Under the Option Proposal, the Company will purchase Outstanding Options, for cancellation in exchange for HK$0.001 in cash for each Outstanding Option, subject to and conditional upon the Scheme becoming effective. Normally, the amount of the cash offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Cancellation Consideration (i.e. the "see-through" price). As the exercise price of all the Options is above the Cancellation Consideration, the Option Payment will be nominal.

Upon the Scheme becoming effective, the Outstanding Options will be automatically cancelled and the Company will pay the Option Payment to holders of such Outstanding Options automatically. Cheques for cash payment under the Option Proposal are expected to be despatched to Optionholders on or before 28 October 2009.

Comparison of value

The Cancellation Consideration of HK$0.48 in cash for each Scheme Share cancelled under the Proposal represents:

- a premium of approximately 39.1% over the closing price of HK$0.345 per Share as quoted on the Stock Exchange on the Last Trading Date;

- a premium of approximately 44.7% over the average closing price of approximately HK$0.332 per Share based on the daily closing prices as quoted on the Stock Exchange over the one month up to and including the Last Trading Date;

- a premium of approximately 68.4% over the average closing price of approximately HK$0.285 per Share based on the daily closing prices as quoted on the Stock Exchange over the three months up to and including the Last Trading Date;

- a premium of approximately 68.1% over the average closing price of approximately HK$0.285 per Share based on the daily closing prices as quoted on the Stock Exchange over the six months up to and including the Last Trading Date;

- a premium of approximately 18.5% over the closing price of about HK$0.405 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- a discount of approximately 35.3% to the audited consolidated net tangible asset value attributable to Shareholders per Share of approximately HK$0.742 as at 31 March 2009; and

- a discount of approximately 40.7% to the audited consolidated net tangible asset value attributable to Shareholders per Share of approximately HK$0.809 as at 31 March 2008.

A summary of the closing prices of the Shares as quoted on the Stock Exchange (i) on the last trading day of each of the calendar months during the Relevant Period; (ii) on the Last Trading Date; and (iii) on the Latest Practicable Date is set out in Appendix II to this document.

The Cancellation Consideration of HK$0.48 per Scheme Share cancelled is final and will not be revised by the Company.

At the Cancellation Consideration, the Proposal values the entire issued share capital of the Company at approximately HK$963 million.

CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on the Company and all Shareholders subject to fulfillment of the following conditions:

(a) the approval of the Scheme (by way of poll) by a majority in number of the Independent Shareholders representing not less than three-fourths in value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:

   (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to Scheme Shares held by Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and

   (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by Independent Shareholders;

(b) the passing of a special resolution to approve and give effect to the cancellation of the Scheme Shares and the reduction of the relevant portion of the issued share capital of the Company by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy, at the EGM;

(c) the sanction of the Scheme (with or without modifications) by the High Court and the delivery to the Registrar of Companies in Hong Kong of a copy of the order of the High Court for registration;

(d) the compliance with the procedural requirements of Section 61 of the Companies Ordinance in relation to the reduction of the issued share capital of the Company;

(e) all Authorisations in connection with the Scheme having been obtained from the Relevant Authorities in Hong Kong and any other relevant jurisdictions; and

(f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for in these conditions, or is in addition to the requirements expressly so provided for, in relevant laws, rules, regulations or codes in connection with the Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective.

The implementation of the Option Proposal is conditional upon the Scheme becoming effective.

Assuming that the above conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on the effective date, which is scheduled to be 21 October 2009. Further press announcements giving details of the results of the Court Meeting and the EGM, the last day for dealing in the Shares, the record date, the effective date and the date of withdrawal of the listing of the Shares on the Stock Exchange will be made by the Company.

REASONS FOR AND BENEFITS OF THE PROPOSAL

The Directors are of the view that the terms of the Proposal are attractive to the Independent Shareholders and that the proposed privatisation of the Company will be beneficial to the Independent Shareholders given that the Proposal:

- provides an opportunity for the Independent Shareholders in current volatile market conditions to realise their shareholdings in the Company at a significant premium to the market price prevailing on the Last Trading Date. Over the twelve-month period prior to the Last Trading Date, the price of the Shares fell by approximately 49.3% and the market, as represented by the Hang Seng Index, fell by approximately 34.5%. During the period from the highest close of the Hang Seng Index at 31,638 on 30 October 2007 to the Last Trading Date, the Hang Seng Index fell by approximately 46.9% and the price of the Shares fell by approximately 65.8%. In view of the Company's trading performance, the Directors believe that the Proposal represents an immediate opportunity for the Independent Shareholders to realise their investment for cash at a Cancellation Consideration which is substantially above the levels at which the Shares have consistently traded for the past nine months prior to the Last Trading Date;

- provides a path to liquidity for the Independent Shareholders. The trading volume of the Shares on the Stock Exchange in recent years has been generally low – the average daily traded volume of the Shares over the 12-month period prior to the Last Trading Date was approximately 2 million Shares, representing approximately 0.10% of the issued Shares as at the date of this document. Given the relatively low trading liquidity of the Shares, the Directors are of the view that there is currently limited opportunity for the Independent Shareholders to divest their investment in the Company; and

- provides an opportunity for the Independent Shareholders to redeploy capital invested in the Company into other investment opportunities that they may consider more attractive. In view of the global financial crisis, which, as described in the section headed "Business Review and Prospect of the Group" in the Explanatory Statement, has led to a weakened economy and operating environment in the PRC. This has had an adverse effect on the Group's IT business, healthcare products business and investment business. While the Company's management intends to proactively adopt measures to improve the Group's business operations in order to maximise returns for Shareholders, the Directors are of the view that the Proposal provides the Independent Shareholders with immediate flexibility to redeploy their capital in other opportunities if they so wish, given that the Directors expect that the difficult operating environment in the PRC may endure for a considerable period of time, and this in turn may affect the Group's businesses and profitability at least in the near term.

The Directors note that there has been no requirement for the Company to undertake any public market fund raising in the past five years prior to the date of this document. In addition, the Directors are of the view that given the conglomerate nature of its business operations as well as the Company's relatively small market capitalisation (HK$692 million as of the Last Trading Date), the Company's corporate profile may not be significant enough to retain sufficient retail and/or institutional investor interest. The Directors are therefore of the view that the ability of the Company to take advantage of its listing status on the Main Board of the Stock Exchange to raise funds from the equity markets may be limited, and any significant improvement in this regard in the foreseeable future is not likely. Accordingly, the Directors believe that the Proposal is in the interest of the Company given the relatively limited benefits which the Company is able to derive from a listing status in the foreseeable future and the costs and management resources associated with maintaining a listing status.

The Directors confirm that, save for the Proposal, there has been no other privatisation proposals received by the Company and that no discussion has taken place or is taking place with any third party regarding the disposal of the Shares held by the Interested Shareholders.

FINANCIAL RESOURCES

Total consideration

On the basis of the Cancellation Consideration of HK$0.48 per Scheme Share and 2,007,149,121 Shares in issue, of which 1,152,192,732 were Scheme Shares as at the Latest Practicable Date, the Scheme Shares are valued at approximately HK$553 million.

Assuming none of the Options are exercised prior to the Record Date in accordance with the terms of the Share Option Scheme and on the basis of the Option Payment of HK$0.001, the Option Proposal is valued at approximately HK$0.1 million. Assuming all Options are exercised in full by the Optionholders in accordance with the terms of the Share Option Scheme prior to the Record Date, no consideration will be payable under the Option Proposal.

Assuming none of the Options are exercised prior to the Record Date, the maximum amount of cash required to effect the Proposal is approximately HK$553 million. Assuming all Options are exercised in full prior to the Record Date, the maximum amount of cash required to effect the Proposal is approximately HK$609 million.

Confirmation of financial resources

The Company will fund the cash required to effect the Proposal from bank borrowings, the Management Loans and its own resources. Macquarie is satisfied that sufficient financial resources are available to the Company for the implementation of the Proposal.

INFORMATION ON THE GROUP

The principal activity of the Company is investment holding. The Group is principally engaged in manufacturing, distribution and sale of healthcare products, electronic and electrical products, office equipment and provision of related services, and media-related business.

A summary of the audited consolidated results of the Company for the years ended 31 March 2007, 2008 and 2009 is set out below:

	For the year ended 31 March 2009 *(HK$'000)*	**For the year ended 31 March 2008** *(HK$'000)*	**For the year ended 31 March 2007** *(HK$'000)*
Turnover	3,403,822	2,988,051	2,375,541
(Loss)/profit before taxation	(47,716)	143,615	298,582
(Loss)/profit for the year	(59,985)	62,794	233,239
(Loss)/profit attributable to equity shareholders of the Company	(141,772)	16,503	134,333

The audited consolidated net assets attributable to Shareholders of the Company were approximately HK$2,658,876,000 as at 31 March 2009, HK$2,716,329,000 as at 31 March 2008 and approximately HK$2,392,553,000 as at 31 March 2007.

The audited consolidated net tangible assets (net assets minus goodwill and other intangible assets) attributable to Shareholders of the Company were approximately HK$1,489,412,000 as at 31 March 2009, HK$1,545,421,000 as at 31 March 2008 and approximately HK$1,222,611,000 as at 31 March 2007.

BUSINESS REVIEW AND PROSPECT OF THE GROUP

The Group is principally engaged in the IT business, healthcare product business and investment business.

IT Business

The Group's IT business primarily comprises the manufacturing and distribution of electronic products, and the operation of Internet café chain.

During the year ended 31 March 2009, the Group's turnover from the IT business fell by 15.4% to approximately HK$1,260 million due to the suspension of several activities in the electronics business in the one and a half-month period before and during the Beijing Olympics. The decrease in turnover was also due to lower demand for the electronics business' products and services as companies in the PRC closed down or became more cost conscious during the global financial crisis. In order to capture additional market share, the Group expanded its distribution networks which led to a year-on-year increase in distribution costs for the year ended 31 March 2009 by approximately 15%. As a result, the Group reported an operating loss of HK$1.6 million for the year ended 31 March 2009; however, this was an improvement compared to the operating loss of HK$19.6 million reported in the previous year.

The Group has been making efforts to improve the profitability and operational efficiency of the IT business through the disposal of, closing down or consolidation of various product lines and departments over the past three years. However, should business conditions remain unimproved or continue to deteriorate, the IT business may continue to incur losses in the near term in the absence of a successful restructuring of the IT business.

Healthcare Product Business

The Group's healthcare product business primarily comprises the manufacturing and sales of healthcare products, namely Naobaijin, GoldPartner, Huang Jin Xue Kang and Golden Wine, the latter of which was introduced to the market in October 2008. The Group operates a broad distribution network across the PRC.

For the year ended 31 March 2009, turnover of healthcare products business amounted to HK$2,144 million, representing 63.0% of the Group's total turnover for the year ended 31 March 2009 and a year-on-year increase of 43.0%. The increase in sales was primarily attributable to the launch of the Group's new product, Golden Wine, as well as a massive advertising campaign. Distribution costs (mainly comprising advertising costs) relating to the healthcare products business increased significantly by 81.4% when compared to the year ended 31 March 2008. As a result, despite an increase in turnover, the healthcare products business recorded an operating profit of HK$32 million for the year ended 31 March 2009 as compared with an operating profit of HK$144 million in the previous year, representing a year-on-year decline of 77.8%.

With regard to the prospects of the Group's healthcare product business and its ability to generate reasonable returns in the near term, the Directors are of the view that the Group faces two major challenges:

1) The ratio of turnover to advertising expenses for the Group's healthcare business has steadily declined in recent years. Some of the existing popular healthcare products of the Group have been in the market for more than ten years. To maintain the existing market share and sales volume and prepare for possible product replacement cycle, the Group will be required to incur significant advertising expenses, especially for newer products such as Golden Wine. Furthermore, it would be very difficult to maintain effective cost control over advertising expenditure as there is always a time lag of several months between the commitment of advertising campaigns and the traditional peak sales season of the Group's healthcare products. As such, the Directors are concerned that future returns to be generated from healthcare products could be partially or completely offset by increased advertising expenses and hence may not be able to provide Shareholders with similar returns as seen in the past.

2) A key factor to the success of the Group's healthcare product business is Chinese discretionary consumer spending in the PRC. The Directors are concerned that consumer spending, including purchase of gifts which constitutes a major selling point of the Group's healthcare products, may further deteriorate under the backdrop of current macro economic conditions. This would significantly impact sales and profitability of the healthcare product business, the main driver for the Group's bottom line profit, in the near team.

Investment Business

During the year ended 31 March 2009, the Group disposed of its entire shareholdings of 2,502,274 shares in SINA Corp, a NASDAQ listed company and realized a gain of HK$178 million and profit attributed to shareholders of HK$91 million (after minority interests) for the Group. The Group also disposed of its entire shareholdings of 24,275,556 shares in China Railway Erju Co. Ltd, an A-share listed company and incurred a book loss of HK$19 million. As at 31 March 2009, the Group held shares in two Hong Kong listed companies, China CITIC Bank Corporation Ltd. and CK Life Sciences International (Holdings) Inc. with an aggregate market value of HK$3.3 million.

MTY Group, which is 49% owned by the Group, is a company engaging in the provision of mobile communication services and automobile navigation services. MTY Group has been significantly affected by the economic downturn and has been loss-making since the financial year ended 31 March 2007. In the past financial year, MTY Group's business has also been negatively affected by both the imposition of restrictions on mobile phones' short messages services by the PRC government as well as the recent bankruptcies of a number of large car manufacturers. Due to a delay in the launch of automobile navigation services by MTY Group, as well as the inability to recover certain receivables for the business, MTY recorded a loss of approximately HK$128 million for the year ended 31 March 2009. The Group has then decided to make a full impairment loss on the goodwill and the carrying value of its investment in MTY Group. The share of the Group's losses in the MTY Group together with the full impairment loss on the carrying value and the goodwill of such investment amounted to approximately HK$130 million in aggregate. The Directors do not expect the business of MTY Group to generate substantial profits for the Group in the near term.

CCMG, an associate company in which the Group holds a 36.12% equity interest, is an investment holding company holding a 33.3% equity interest in CCN. CCN is a nationwide and multi-system cable television operator in the PRC, and currently has a subscriber base of over 3 million. The Directors expect that it is likely that the Group will be required to provide additional financing in order to fund CCN's operating costs and capital expenditure relating to digitalisation of CCN's cable networks and acquisition of cable television operators. As such, the Directors do not expect that the Group's investment in CCMG will provide substantial returns in the near term.

The Group also holds a 47.62% equity interest in Shandong New Kaiyuan Real Estate Co. Limited, a property project in Shandong Province, PRC. After an initial disruption to the original construction schedule due to a delay in the application for relevant building certificates, construction work is expected to resume at the end of 2009 upon the granting of bank loans and is expected to take approximately one year to complete. Given current market conditions, the Directors anticipate that a full recovery of the property market is not likely to occur in the near term.

The Group also holds a 16.67% equity interest in Stone Resources, which is a mineral resources exploration business. As at the Latest Practicable Date, Stone Resources has obtained the provisional exploration license in Yemen and is required to make an application to the local government for the formal exploration license before conducting on-site exploration. Stone Resources has also identified certain mines in Tanzania and is in negotiation with the owner of the mines. As at the Latest Practicable Date, no agreement has been reached in respect of the exploration in Tanzania. The Group's investment in Stone Resources is at a preliminary stage and the Directors do not anticipate this investment to offer satisfactory returns to Shareholders in the near term.

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Scheme becoming effective and the listing of the Shares on the Stock Exchange is withdrawn (assuming none of the Outstanding Options have been exercised on or prior to the Record Date):

	As at the Latest Practicable Date		Immediately after the Scheme becomes effective and the listing of the Shares on the Stock Exchange is withdrawn	
Shareholders	*Number of Shares*	*%*	*Number of Shares*	*%*
Interested Shareholders and persons acting in concert with any of them				
BJ Stone Investment	407,110,053	20.28	407,110,053	47.62
SGC	1,062,000	0.05	1,062,000	0.12
Wise Expand	92,374,413	4.60	92,374,413	10.80
Ready Finance	55,263,157	2.75	55,263,157	6.46
Duan Yongji	140,896,306	7.02	140,896,306	16.48
Management Shareholders				
Yu Dongmei *(Note 4)*	57,692,307	2.87	57,692,307	6.75
Wu Huan	23,602,153	1.18	23,602,153	2.76
Wu Qiong	10,000,000	0.50	10,000,000	1.17
Yang Langtao	10,000,000	0.50	10,000,000	1.17
Jing Xiangdong	9,500,000	0.47	9,500,000	1.11
Lu Fang	9,500,000	0.47	9,500,000	1.11
Ma Xin	9,500,000	0.47	9,500,000	1.11
Xu Jingyao	9,500,000	0.47	9,500,000	1.11
Yu Xiangqun	9,500,000	0.47	9,500,000	1.11
Zhang Changji	6,000,000	0.30	6,000,000	0.70
Leung Suk Kam	3,456,000	0.17	3,456,000	0.40
Sub-total for Management Shareholders	158,250,460	7.88 *(Note 3)*	158,250,460	18.51 *(Note 3)*
Sub-total for Interested Shareholders and persons acting in concert with any of them	854,956,389	42.60 *(Note 3)*	854,956,389	100.00 *(Note 3)*
Independent Shareholders	1,152,192,732 *(Note 2)*	57.40	0	0
Total	2,007,149,121	100	854,956,389	100

Notes:

1. Out of these 407,110,053 Shares held by BJ Stone Investment, 310,000,000 Shares have been pledged to 深圳發展銀行深圳人民橋支行, which has confirmed that for the purposes of the Proposal, all shareholder's rights (including voting rights) in relation to the pledged Shares are exercisable exclusively by BJ Stone Investment at its own discretion.

2. Out of these 1,152,192,732 Shares held by Independent Shareholders, 1,000,000 Shares are held by Mr. Ng Ming Wah, Charles, an independent non-executive Director.

3. Rounded to the nearest decimal place.

4. Ms. Yu Dongmei's shareholding interest is held through Vital.

The Company had 117,400,000 Outstanding Options as at the Latest Practicable Date. Each Option, on exercise, will entitle the Optionholder to be allotted with one Share. The table below sets out details of the Options as at the Latest Practicable Date:

Optionholders	**Number of Options**
Interested Shareholders *(Note 1)*	
Duan Yongji	15,000,000
Shi Yuzhu *(Note 2)*	5,000,000
Management Shareholders:	
Yu Dongmei	1,000,000
Wu Qiong	1,000,000
Yang Langtao	800,000
Jing Xiangdong	800,000
Lu Fang	2,000,000
Ma Xin	1,000,000
Xu Jingyao	2,000,000
Yu Xiangqun	300,000
Leung Suk Kam	1,500,000
Sub-total for Management Shareholders	10,400,000
Other Optionholders	87,000,000
Total	117,400,000

Notes:

1. Options held by Interested Shareholders are also subject to the Option Proposal.

2. Mr. Shi Yuzhu, an executive Director, holds 100% of Ready Finance.

110,400,000 of the Outstanding Options have an exercise period from 21 August 2007 to 20 August 2012 and an exercise price of HK$0.714 per Share and 7,000,000 of the Outstanding Options have an exercise period from 16 November 2007 to 15 November 2012 and an exercise price of HK$0.852 per Share.

Save as disclosed above, there were no outstanding options, warrants, derivatives, convertible securities or other securities issued by the Company that carried a right to subscribe for or which were convertible into Shares as at the Latest Practicable Date. Upon the Scheme becoming effective and the withdrawal of listing of the Shares on the Stock Exchange, the Company will be held by the Interested Shareholders in the percentages set out above.

INFORMATION ON THE INTERESTED SHAREHOLDERS

BJ Stone Investment is an enterprise established in the PRC on 13 May 1999. As at the Latest Practicable Date, BJ Stone Investment is owned as to 51% by BJ Stone Employees' Shareholdings Society, 42.3% by Jiu Guang and 6.7% by SGC. Its principal business is project investment. BJ Stone Employees' Shareholdings Society is a society organization registered in the PRC. Its members comprise individuals who are/were employees of BJ Stone Investment who contributed to the registered capital of BJ Stone Employees' Shareholdings Society for the purpose of investing in BJ Stone Investment. As at the Latest Practicable Date, Jiu Guang is owned as to 56.14% by Shenyang Heguang Group Co. Ltd. (a company controlled by SGC), 14.04% by Giant Investment Co., Ltd., 14.04% by Guangcai Investment Group Co., Ltd., 7.89% by Mr. Zhang Disheng (an executive Director), 7.01% by Mr. Peng Jianwei and 0.88% by Beijing Stone Information Products Technology Co., Ltd. Its principal business is research and development of high technology.

SGC is a collectively-owned enterprise established in the PRC on 17 October 1991. It is collectively-owned by individuals who are/were employees of SGC and/or its subsidiaries. Its principal business is the development and production of high technology products.

Wise Expand is a company incorporated in Hong Kong with limited liability on 14 February 2001. It is wholly-owned by SGC. It is an investment holding company.

Ready Finance is a company incorporated in the British Virgin Islands with limited liability on 3 December 2002. It is wholly-owned by Mr. Shi Yuzhu, an executive Director. It is an investment holding company.

Mr. Duan Yongji is an executive Director, the Chairman of the Board and the Chief Executive Officer of the Company.

The Management Shareholders are senior management of the Group who have, together with the other Interested Shareholders, irrevocably agreed with the Company not to participate in the Scheme. Accordingly, they are not Independent Shareholders and the Shares held by them will not form part of the Scheme Shares and they will not be entitled to vote on the resolution to approve the Scheme at the Court Meeting.

FUTURE INTENTIONS

In the past, the Company has explored on a preliminary basis the possibility of restructuring business operations and asset realignment, which may involve acquisitions and/or divestments of existing businesses, investments, and/or assets. As at the date of this document, the Company is not in discussion and has not entered into any legally binding agreement with respect to any potential acquisitions or divestments, or the admission of any new shareholder in any of the Group's subsidiaries or associated companies. The Interested Shareholders, upon successful implementation of the Proposal, will continue to undertake the restructuring and asset realignment exercise and assess any opportunity that may arise from time to time involving the businesses, investments, and/or assets of the Group. Other than the above, it is the intention of the Interested Shareholders to maintain the existing businesses of the Group upon the successful privatisation of the Company. The Interested Shareholders do not intend to introduce any major changes to the existing operating and management structure of the Group, or to discontinue the employment of any employee of the Group, as a result of the implementation of the Proposal. The Interested Shareholders will, however, be solely responsible for the funding or procuring funding for the on-going requirements of the Group's business after the successful implementation of the Proposal. The Directors (excluding the non-executive and independent non-executive Directors) expect that there will not be any material change to the business strategy and operating mode of the Group as a result of the implementation of the Proposal.

WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will cease to have effect as documents of evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the effective date of the Scheme. The Independent Shareholders will be notified by way of a press announcement of the exact dates on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on 6 October 2009, and the listing of the Shares on the Stock Exchange is expected to be withdrawn after close of business on 21 October 2009.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

DIVIDEND ENTITLEMENTS

Upon the Scheme becoming effective, the Scheme Shares will be cancelled and will not be entitled to any dividends to be paid by reference to a record date which falls after the date of their cancellation. The Company has not declared dividends during the year ended 31 March 2009.

OVERSEAS SHAREHOLDERS

The making of the Proposal to persons who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such persons are located. Such persons should inform themselves about and observe any applicable legal and regulatory requirements. It is the responsibility of any overseas person wishing to accept the Proposal to satisfy itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

THE COURT MEETING AND THE EGM

In accordance with the direction of the High Court, the Court Meeting has been convened to be held on Wednesday, 23 September 2009 for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). The Scheme is subject to approval by a majority in number of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by the Independent Shareholders. Based on 1,152,192,732 Shares held by the Independent Shareholders as at the Latest Practicable Date, 10% of such Shares amounts to approximately 115,219,273 Shares.

The EGM will be held immediately following the Court Meeting for the purposes of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme by the Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme at the EGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

Notices of the Court Meeting and the EGM are set out on pages 193 to 197 of this document. The Court Meeting and the EGM will be held on Wednesday, 23 September 2009 at the respective times specified in such notices at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King’s Road, North Point, Hong Kong.

PROCEDURES FOR DEMANDING A POLL AT THE EGM

Articles 73 to 75 of the Company's articles of association set out the procedures under which a poll may be demanded. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll as may from time to time be required under the Listing Rules or unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(i) by the Chairman; or

(ii) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) by any Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and the demand is not withdrawn or unless a poll is taken as may from time to time be required under the Listing Rules, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution. The demand for a poll may be withdrawn.

The special resolution to be proposed at the EGM will, in any event, be taken on a poll. The resolution to be proposed at the Court Meeting will also be taken on a poll.

ACTIONS TO BE TAKEN BY THE SHAREHOLDERS

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM are enclosed with this document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the respective instructions printed thereon, and to deposit them at the registered office of the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged so as to reach the above address not later than 10:00 a.m. on Monday, 21 September 2009 but if it is not so lodged, it may be handed to the Chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the EGM should be lodged so as to reach the above address not later than 10:30 a.m. on Monday, 21 September 2009. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the meeting on the day and at the place, but before commencement, of the meeting.

For the purposes of determining (i) the Independent Shareholders who are entitled to attend and vote at the Court Meeting and (ii) the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 16 September 2009 to Wednesday, 23 September 2009 (both dates inclusive). During such period no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting or the EGM, all transfers accompanied by the relevant share certificates (if applicable) must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 15 September 2009.

Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme by the High Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

SHAREHOLDERS WHO HOLD THEIR SHARES THROUGH TRUST OR CCASS

No person shall be recognised by the Company as holding any Shares on trust. Any beneficial owner of Shares ("Beneficial Owner") whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party ("Registered Owner") should contact the Registered Owner to give instructions to and/or to make arrangements with the Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM in accordance with the articles of association of the Company and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the articles of association of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant ("Investor Participant"), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant ("Other CCASS Participant") regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

REGISTRATION AND PAYMENT

If the Scheme becomes effective, cheques for the Cancellation Consideration will be despatched to the Independent Shareholders whose names appear on the register of members of the Company at the Record Time as soon as possible but in any event within ten days after the Effective Date. For the purpose of establishing the entitlements of the Independent Shareholders under the Scheme, it is proposed that the register of the members of the Company be closed from Tuesday, 13 October 2009 to Tuesday, 20 October 2009 (both dates inclusive), or such other period as may be notified to the Independent Shareholders by way of an announcement. The Independent Shareholders and/or their respective successors in title should ensure that all transfers of their Shares accompanied by the relevant share certificates (if applicable) are registered or lodged for registration in their names or in the names of their nominees with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Monday, 12 October 2009.

Assuming that the Scheme becomes effective on Wednesday, 21 October 2009, cheques for cash entitlements to the Cancellation Consideration are expected to be despatched to the Independent Shareholders and/or their respective successors on or before Wednesday, 28 October 2009.

As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, the Company shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed, and shall place all monies represented thereby in an account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums to persons who satisfy the Company that they are entitled thereto and that the cheques of which they are payees have not been cashed. No payments made by the Company shall include any interest accrued on the sums to which the respective persons are entitled under the Scheme. On the expiry of six years from the Effective Date, the Company (or any successor company thereto) shall be released from any further obligations to make any payments under the Scheme and the Company shall thereafter retain the balance (if any) of the sums then standing to the credit of the account in its name, including accrued interest (if any) subject, if applicable, to the deduction of any interest or withholding or other tax or any other deductions required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by the Company's share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, cheques will be despatched to the persons entitled thereto at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and the Company will not be liable for any loss or delay in transmission. Payment of the Cancellation Consideration will be effected by cheques and implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Company may otherwise be, or claim to be, entitled against any Independent Shareholder.

TAXATION

As the Proposal does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong on the cancellation of the Scheme Shares and the Outstanding Options upon the Scheme becoming effective.

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation or other implications of the Scheme becoming effective or otherwise. It is emphasised that none of the Company, the Interested Shareholders or any of their respective directors or associates or any other person involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

EXPENSES OF THE SCHEME

The expenses of the Scheme incurred or to be incurred by the Company, which primarily consist of fees for financial advisers, legal advisers, printing and other related charges, are expected to amount to approximately HK$21.7 million.

In the event that the Scheme becomes effective, the Company will bear its own expenses incurred in connection with the Scheme. In the event that the Scheme is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with the Scheme will be borne by the Interested Shareholders in accordance with Rule 2.3 of the Takeovers Code.

RECOMMENDATIONS

The Independent Board Committee have considered the terms of the Proposal and taken into account the opinion and advice of Anglo Chinese, in particular the factors, reasons and recommendation as set out in the "Letter from Anglo Chinese" on pages 22 to 57 of this document. The Independent Board Committee's recommendation is set out in the "Letter from the Independent Board Committee" on pages 20 to 21 of this document.

FURTHER INFORMATION

Further information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

I. THREE-YEAR FINANCIAL SUMMARY

Set out below is the financial information of the Group for each of the three years ended 31 March 2007, 2008 and 2009, which are extracted from the audited consolidated financial statements of the Group for the years ended 31 March 2007, 2008 and 2009. The auditor's reports issued by KPMG in respect of the Group's audited consolidated financial statements for each of the three years ended 31 March 2007, 2008 and 2009 did not contain any qualifications.

	Year ended 31 March		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Turnover	3,403,822	2,988,051	2,375,541
(Loss)/profit before taxation	(47,716)	143,615	298,582
Income tax	(12,269)	(80,821)	(65,343)
(Loss)/profit for the year	(59,985)	62,794	233,239
(Loss)/profit attributable to:			
Equity shareholders of the Company	(141,772)	16,503	134,333
Minority interests	81,787	46,291	98,906
Dividends			
Final dividend proposed after the balance sheet date	–	–	23,192
Final dividend per share proposed after the balance sheet date	–	–	1.3 cents
(Loss)/earnings per share			
Basic	(7.13) cents	0.92 cents	8.62 cents
Diluted	(7.13) cents	0.87 cents	6.33 cents

Note: There are no extraordinary or exceptional items.

II. AUDITED FINANCIAL INFORMATION

Set out below is the full text of the audited consolidated financial statements of the Group for the year ended 31 March 2009 extracted from the annual report of the Company for the year ended 31 March 2009.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Turnover	2 & 14	3,403,822	2,988,051
Cost of sales and services		(1,857,547)	(1,926,319)
Gross profit		1,546,275	1,061,732
Other revenue	3	41,809	27,589
Other net (loss)/income	4	(4,334)	2,718
		1,583,750	1,092,039
Distribution costs		(1,366,606)	(777,569)
Administrative expenses		(177,949)	(183,784)
Other operating expenses		(45,385)	(54,534)
Net valuation gains on investment properties	15	1,042	14,462
Non-operating income	5	117,606	102,159
Finance costs	6(a)	(31,610)	(34,462)
Share of profits less losses of associates		(128,564)	(14,696)
(Loss)/profit before taxation	6	(47,716)	143,615
Income tax	7(a)	(12,269)	(80,821)
(Loss)/profit for the year		(59,985)	62,794
Attributable to:			
Equity shareholders of the Company	10 & 32(a)	(141,772)	16,503
Minority interests	32(a)	81,787	46,291
(Loss)/profit for the year	32(a)	(59,985)	62,794
Dividends payable to equity shareholders of the Company attributable to the year:	11(a)		
Final dividend proposed after the balance sheet date		–	–
(Loss)/earnings per share	12		
Basic		(7.13) cents	0.92 cent
Diluted		(7.13) cents	0.87 cent

CONSOLIDATED BALANCE SHEET
as at 31 March 2009
(Expressed in Hong Kong dollars)

		2009		2008	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Non-current assets					
Fixed assets					
– Investment properties	*15*		93,039		112,341
– Property, plant and equipment	*16(a)*		227,753		162,101
			320,792		274,442
Goodwill	*17*		1,136,614		1,136,614
Other intangible assets	*18*		32,850		34,294
Interest in associates	*20*		439,403		585,159
Other financial assets	*21*		52,986		55,590
Deferred tax assets	*33(a)*		124,041		14,647
			2,106,686		2,100,746
Current assets					
Trading securities	*22*	3,299		958,448	
Available-for-sale investments	*21*	22,114		–	
Inventories	*23*	185,891		190,905	
Trade and other receivables	*24*	745,621		753,566	
Cash and cash equivalents	*25*	1,019,105		553,022	
		1,976,030		2,455,941	
Current liabilities					
Bank loans	*26*	54,434		151,238	
Other loan	*27*	252,000		311,240	
Trade and other payables	*28*	599,538		376,351	
Convertible notes	*29*	56,963		318,184	
Current taxation	*7(b)*	203,405		143,180	
		1,166,340		1,300,193	
Net current assets			809,690		1,155,748
Total assets less current liabilities			2,916,376		3,256,494

	Note	2009 $'000	2009 $'000	2008 $'000	2008 $'000
Non-current liabilities					
Bank loans	*26*		–		1,875
Convertible notes	*29*		–		86,095
Deferred tax liabilities	*33(a)*		7,979		3,820
			7,979		91,790
NET ASSETS			2,908,397		3,164,704
CAPITAL AND RESERVES	*32(a)*				
Share capital	*31*		200,715		190,929
Reserves			2,458,161		2,525,400
Total equity attributable to equity shareholders of the Company			2,658,876		2,716,329
Minority interests			249,521		448,375
TOTAL EQUITY			2,908,397		3,164,704

BALANCE SHEET
as at 31 March 2009
(Expressed in Hong Kong dollars)

		2009		2008	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Non-current assets					
Fixed assets					
– Investment properties	*15*		5,200		5,170
– Property, plant and equipment	*16(b)*		2,655		531
			7,855		5,701
Interest in subsidiaries	*19*		2,317,437		2,220,639
Interest in associates	*20*		102,227		102,227
Other financial assets	*21*		51,879		51,769
			2,479,398		2,380,336
Current assets					
Trading securities	*22*	2,930		14,181	
Inventories	*23*	15,470		15,470	
Trade and other receivables	*24*	20,448		18,713	
Cash and cash equivalents	*25*	191,463		56,216	
		230,311		104,580	
Current liabilities					
Other loan	*27*	252,000		–	
Trade and other payables	*28*	8,196		13,072	
Convertible notes	*29*	56,963		318,184	
		317,159		331,256	
Net current liabilities			(86,848)		(226,676)
Total assets less current liabilities			2,392,550		2,153,660
Non-current liability					
Convertible notes	*29*		–		86,095
NET ASSETS			2,392,550		2,067,565
CAPITAL AND RESERVES	*32(b)*				
Share capital	*31*		200,715		190,929
Reserves			2,191,835		1,876,636
TOTAL EQUITY			2,392,550		2,067,565

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

		2009		2008	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Total equity at 1 April 2008/2007			3,164,704		2,841,750
Net income recognised directly in equity:					
Exchange differences on translation of the financial statements of foreign entities	*32(a)*		25,855		105,739
Capital reserve on shares repurchased	*32(a)*		1,175		80
Changes in fair value of available-for-sale securities	*32(a)*		(791)		(120)
Surplus on revaluation of land and buildings held for own use, net of deferred tax	*32(a)*		5,541		–
Release from capital reserve on lapse of share options	*32(a)*		2,033		–
Release from other reserve on transfer/redemption of convertible notes upon maturity	*32(a)*		62,473		–
Net income directly recognised in equity			96,286		105,699

	Note	2009 $'000	2009 $'000	2008 $'000	2008 $'000
Transfer from equity:					
Transfer to profit or loss on impairment of available-for-sale securities	*32(a)*		791		52
			97,077		105,751
Net (loss)/profit for the year	*32(a)*		(59,985)		62,794
Total recognised income and expense for the year			37,092		168,545
Attributable to:					
– Equity shareholders of the Company		(54,788)		111,457	
– Minority interests		91,880		57,088	
		37,092		168,545	
Dividend approved and paid during the year	*32(a)*		–		(23,192)
Dividends paid to minority shareholders	*32(a)*		(310,353)		(57,162)
Lapse of share options	*32(a)*		(2,033)		–
Transfer/redemption of convertible notes upon maturity	*32(a)*		(62,473)		–

		2009		2008	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Movements in equity arising from capital transactions:					
Movements in share capital and share premium					
– shares issued upon conversion of convertible notes	*32(a)*	56,647		168,299	
– shares issued under share option scheme	*32(a)*	–		39,905	
– equity settled share-based transactions	*32(a)*	8,807		27,984	
– shares repurchased					
– par value	*31*	(1,175)		(80)	
– premium paid	*32(a)*	(2,438)		(597)	
		61,841		235,511	
Share of minority interest in additional interests in a subsidiary	*32(a)*	–		(748)	
Share of minority interest on acquisition of a subsidiary	*32(a)*	19,619		–	
			81,460		234,763
Total equity at 31 March			2,908,397		3,164,704

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

		2009		2008	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Operating activities					
(Loss)/profit before taxation			(47,716)		143,615
Adjustments for:					
– Interest charges			29,176		32,137
– Interest income			(7,499)		(5,818)
– Dividend income			(411)		(650)
– Share of profits less losses of associates			128,564		14,696
– Amortisation and depreciation			22,018		18,162
– Loss on deemed disposal of interest in an associate			–		11,373
– Excess of interest in fair values of the acquiree's identifiable net assets over cost of acquisition			–		(1,915)
– Gain on disposal of fixed assets			(55)		(2,592)
– Net valuation gains on investment properties			(1,042)		(14,462)
– Net realised/unrealised gain on trading securities			(135,201)		(114,683)
– Impairment loss on available-for-sale securities			791		52
– Reversal of impairment loss on properties			–		(8,301)
– Provision for impairment losses on other receivables			16,259		11,312
– Equity settled share-based payment expenses			8,807		27,984
– Foreign exchange (gain)/loss			(2,271)		2,032
Operating profit before changes in working capital			11,420		112,942

		2009		2008	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Decrease in amounts due from/to associates (net)		29,027		11,243	
Decrease in inventories		35,148		18,287	
Increase in debtors, prepayments and other receivables		(12,980)		(286,557)	
Decrease in gross amount due from customers for contract work		–		1,271	
(Increase)/decrease in amounts due from related companies		(703)		8,552	
Increase in creditors, accruals and other payables		189,370		71,042	
Increase/(decrease) in amounts due to related companies		285		(5,796)	
			240,147		(181,958)
Cash generated from/(used in) operations			251,567		(69,016)
PRC tax paid		(62,292)		(49,653)	
Interest received		7,499		5,818	
			(54,793)		(43,835)
Net cash generated from/(used in) operating activities			196,774		(112,851)
Investing activities					
Purchase of fixed assets		(53,373)		(25,348)	
Proceeds from sale of fixed assets		146		11,659	
Purchase of investments		(22,400)		(54,824)	
Proceeds from disposal of investments		1,117,920		78,045	
Acquisition of additional equity interest in associates		(1,098)		(119,287)	
Acquisition of a subsidiary	*(a)*	7,753		–	
Dividends received		411		650	
Net cash generated from/(used in) investing activities			1,049,359		(109,105)

	Note	2009 $'000	2009 $'000	2008 $'000	2008 $'000
Financing activities					
Interest paid		(19,799)		(19,825)	
Dividends paid		–		(23,192)	
Dividends paid to minority shareholders		(310,353)		(57,162)	
Expenses paid in connection with shares issued under share option scheme and conversion of convertible notes		(37)		(176)	
Redemption of convertible notes at maturity		(48,008)		–	
Shares repurchased		(2,438)		(597)	
Proceeds from shares issued under share option scheme		–		39,905	
New other loan		–		194,525	
New bank loans		402,961		243,122	
Repayment of other loan		(311,240)		–	
Repayment of bank loans		(501,640)		(111,545)	
Net cash (used in)/generated from financing activities			(790,554)		265,055
Net increase in cash and cash equivalents			455,579		43,099
Effect on foreign exchange rate changes			10,504		32,721
Cash and cash equivalents at 1 April 2008/2007			553,022		477,202
Cash and cash equivalents at 31 March	*25*		1,019,105		553,022

Notes to the consolidated cash flow statement

(a) Acquisition of a subsidiary

During the year ended 31 March 2009, the Group acquired an additional 4.29% and 2.70% equity interest in China Huaxu Golden Card Company Limited ("China Huaxu Golden Card") at consideration of $1,098,000 and $548,000 respectively. The Group's equity interest in China Huaxu Golden Card increased from 44.41% at 31 March 2008 to 51.4% at 31 March 2009.

	2009	2008
	$'000	*$'000*
Net assets acquired		
Property, plant and equipment	980	–
Inventories	37,089	–
Trade and other receivables	9,987	–
Cash and cash equivalents	8,301	–
Trade and other payables	(15,990)	–
Minority shareholders' interests	(19,619)	–
	20,748	–
Satisfied by:		
Interest in associates	20,200	–
Cash consideration	548	–
	20,748	–

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary

	2009	2008
	$'000	*$'000*
Cash consideration paid	(548)	–
Cash and cash equivalents acquired	8,301	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	7,753	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 a number of new Interpretations and an amendment to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period *(see note 40)*.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2009 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.

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 major sources of estimation uncertainty are discussed in note 39.

(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(n), (o) or (p) 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).

(d) Associates

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.

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

Where the Group's share of losses exceeds its interest in the associate, 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. For this purpose, the Group's interest in the associate 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.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, 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).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate 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 arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment *(see note 1(k))*. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment *(see note 1(k))*.

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 is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate 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. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(u)(iv) and (v).

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))*.

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 resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(u)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(u)(v). 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(u)(iii).

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(w))*.

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.

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 ("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.

(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 the 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.

(ii) Operating lease charges

Where the Group has the use of assets held 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))*.

(k) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries: see note 1(k)(ii)) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates recognised using the equity method *(see note 1(d))*, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

– 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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 in the investment revaluation reserve is reclassified to 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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 (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 fair value less costs to sell 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.

– 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(w))*, 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.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of 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 allowance for impairment of doubtful debts.

(n) 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.

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.

(o) 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.

(p) 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.

(q) 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.

(r) 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 profit or loss 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 subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(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 resulting 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 account) 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.

(s) 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 the relevant amounts of tax are recognised directly 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.

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.

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.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

(iii) Rental income from operating leases

Rental income receivable 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.

(iv) 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.

(v) Interest income

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

(vi) 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.

(v) 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 relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(x) 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;

(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.

(y) 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.

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 42 to 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:

	2009	**2008**
	$'000	*$'000*
Manufacturing, distribution and sale of healthcare products	2,143,711	1,499,191
Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services	1,252,789	1,480,737
Media-related business	7,322	8,123
	3,403,822	2,988,051

3 Other revenue

	2009	2008
	$'000	*$'000*
Government subsidies *(note)*	21,239	11,482
Interest income	7,499	5,818
Rental received from investment properties less outgoings	4,486	7,398
Dividend income from investments	411	650
Others	8,174	2,241
	41,809	27,589

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

4 Other net (loss)/income

	2009	2008
	$'000	*$'000*
Gain on disposal of fixed assets	55	2,592
Net exchange (loss)/gain	(4,389)	126
	(4,334)	2,718

5 Non-operating income

	2009	2008
	$'000	*$'000*
Net realised/unrealised gain on trading securities	135,201	114,683
Impairment loss on available-for-sale securities	(791)	(52)
Loss on deemed disposal of interest in an associate *(note 20(a))*	–	(11,373)
Excess of interest in net fair value of the acquiree's identifiable assets and liabilities over cost of business combination	–	1,915
Provision for impairment losses on other receivables	(16,259)	(11,312)
Reversal of impairment loss on properties	–	8,301
Others	(545)	(3)
	117,606	102,159

6 (Loss)/profit before taxation

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

	2009	2008
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	26,686	21,134
Interest on other loan	2,490	11,003
Other borrowing costs	2,434	2,325
Total borrowing costs	31,610	34,462

	2009	2008
	$'000	*$'000*
(b) Other items:		
Cost of inventories	1,856,763	1,925,395
Staff costs (including retirement costs of $8,053,000 (2008: $6,122,000) and equity settled share-based payment expenses of $8,807,000 (2008: $27,984,000))	334,839	256,147
Amortisation of other intangible assets	2,203	2,155
Research and development costs	1,706	3,106
Provision for write-down in value of obsolete inventories made	21,353	26,968
Impairment losses for bad and doubtful debts	5,448	9,170
Depreciation	19,815	16,007
Dividend income from investments		
– listed	(286)	(619)
– unlisted	(125)	(31)
Auditors' remuneration		
– audit services	2,967	3,220
– other services	545	550
Operating lease charges: minimum lease payments for land and buildings	135,227	83,977

7 Income tax

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

	2009	2008
	$'000	*$'000*
Current tax		
Provision for Hong Kong Profits Tax	–	–
Provision for income tax outside Hong Kong in the PRC ("PRC corporate income tax")	119,351	85,426
	119,351	85,426
Deferred tax		
Origination and reversal of temporary differences *(note 33(a))*	(107,082)	(8,995)
Effect of change in tax rate on deferred tax balances	–	4,390
	12,269	80,821

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

On 16 March 2007, the Tenth National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which is effective from 1 January 2008. Under the New CIT Tax Law, corporate income tax rate for domestic companies and foreign-invested enterprises will decrease from 33% to 25% since 1 January 2008. In this connection, the deferred tax balances of those subsidiaries in the PRC which were subject to standard corporate income tax rate of 33% were increased by $4,390,000 as at 31 March 2008. In addition, for those enterprises benefiting from lower preferential tax rates, such preferential rates will be gradually phased out by increasing them over the next five years.

Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2009	**2008**
	$'000	*$'000*
(Loss)/profit before taxation	(47,716)	143,615
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(18,628)	40,371
Tax effect of non-deductible expenses	50,971	37,764
Tax effect of non-taxable revenue	(30,649)	(20,397)
Tax effect of unused tax losses not recognised	10,575	18,693
Effect of change in tax rate on deferred tax balances	–	4,390
Actual tax expense	12,269	80,821

(b) Current taxation in the balance sheets represents:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Provision for PRC corporate income tax	203,405	143,180	–	–

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	Sub-total	Share-based payments *(Note)*	2009 Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors						
Duan Yongji	–	1,985	–	1,985	1,037	3,022
Shi Yuzhu	–	480	–	480	345	825
Shen Guojun	–	881	–	881	276	1,157
Zhang Disheng	–	1,133	27	1,160	416	1,576
Chen Xiaotao	–	–	–	–	276	276
Liu Wei (Resigned on 21 August 2008)	–	187	–	187	–	187
Liu Zuowei (Appointed on 21 August 2008)	–	2,477	11	2,488	–	2,488
Non-executive director						
Cheng Fumin	250	–	–	250	94	344
Independent non-executive directors						
Ng Ming Wah, Charles	280	–	–	280	188	468
Andrew Y Yan	280	–	–	280	188	468
Liu Ji (Resigned on 21 August 2008)	98	–	–	98	–	98
Liu Jipeng	250	–	–	250	188	438
	1,158	7,143	38	8,339	3,008	11,347

	Directors' fees $'000	Salaries and other emoluments $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (Note) $'000	2008 Total $'000
Executive directors						
Duan Yongji	–	1,929	–	1,929	3,393	5,322
Shi Yuzhu	–	480	–	480	1,131	1,611
Shen Guojun	–	873	–	873	905	1,778
Zhang Disheng	–	1,121	26	1,147	1,358	2,505
Chen Xiaotao	–	–	–	–	905	905
Liu Wei	–	1,345	7	1,352	679	2,031
Non-executive director						
Cheng Fumin	–	123	–	123	214	337
Independent non-executive directors						
Ng Ming Wah, Charles	280	–	–	280	427	707
Andrew Y Yan	280	–	–	280	427	707
Liu Ji	250	–	–	250	427	677
Liu Jipeng	250	–	–	250	427	677
	1,060	5,871	33	6,964	10,293	17,257

During the year ended 31 March 2009, two directors agreed to waive part of their emoluments totalling $16,258,000 (2008: $11,477,000) to which they are entitled under the service contracts entered into with the Company.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(r)(ii) and, in accordance with that policy, includes adjustments to reserve amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 30.

9 Individuals with highest emoluments

The five individuals with the highest emoluments comprise three (2008: five) directors whose emoluments are disclosed in note 8 and two (2008: nil) employees. Details of the emoluments in respect of these employees are as follows:

	2009	**2008**
	$'000	*$'000*
Salary, housing and other emoluments	1,530	–
Discretionary bonuses	1,036	–
Share-based payments	318	–
Retirement scheme contributions	33	–
	2,917	–

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

	2009	**2008**
	Number of employees	*Number of employees*
$0 – $1,000,000	–	–
$1,000,001 – $1,500,000	1	–
$1,500,001 – $2,000,000	1	–

10 (Loss)/profit for the year attributable to equity shareholders of the Company

The consolidated loss for the year attributable to equity shareholders of the Company includes a profit of $261,969,000 (2008: $35,888,000) which has been dealt with in the financial statements of the Company.

11 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2009	2008
	$'000	*$'000*
Final dividend proposed after the balance sheet date of $Nil (2008: $Nil) per share	–	–

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2009	2008
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of $Nil per share (2008: 1.3 cents per share)	–	23,192

12 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the year attributable to equity shareholders of the Company of $141,772,000 (2008: profit of $16,503,000) and the weighted average number of ordinary shares of approximately 1,989,024,000 shares (2008: 1,802,662,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2009 *Number of shares ’000*	**2008** *Number of shares ’000*
Issued ordinary shares at 1 April 2008/2007	1,909,281	1,559,930
Effect of conversion of convertible notes	84,590	211,728
Effect of exercise of share options	–	31,186
Effect of repurchase of own shares	(4,847)	(182)
Weighted average number of ordinary shares at 31 March	1,989,024	1,802,662

(b) Diluted (loss)/earnings per share

The diluted loss per share for the year ended 31 March 2009 is the same as basic loss per share because the existence of outstanding convertible notes and the Company’s share options during the year have an anti-dilutive effect on the calculation of diluted loss per share.

The calculation of diluted earnings per share for the year ended 31 March 2008 is based on the profit attributable to the equity shareholders of the Company of $16,503,000 and the weighted average number of ordinary shares of approximately 1,889,663,000 shares calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009	**2008**
	Number of shares '000	*Number of shares '000*
Weighted average number of ordinary shares at 31 March	1,989,024	1,802,662
Effect of conversion of convertible notes	25,126	56,296
Effect of exercise of share options	–	30,705
Weighted average number of ordinary shares (diluted) at 31 March	2,014,150	1,889,663

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 $201,000 (2008: $201,000).

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 $7,852,000 (2008: $5,921,000).

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	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	2,143,711	1,499,191	1,252,789	1,480,737	7,322	8,123	–	–	3,403,822	2,988,051
Other revenue from external customers	24,985	13,595	3,055	100	–	–	13,769	13,894	41,809	27,589
Total	2,168,696	1,512,786	1,255,844	1,480,837	7,322	8,123	13,769	13,894	3,445,631	3,015,640
Segment result	31,875	143,550	(1,597)	(19,624)	(320)	2,596	(36,148)	(50,370)	(6,190)	76,152
Net valuation gains on investment properties									1,042	14,462
Non-operating income									117,606	102,159
Finance costs									(31,610)	(34,462)
Share of profits less losses of associates	–	–	370	7,166	(127,840)	(21,847)	(1,094)	(15)	(128,564)	(14,696)
Income tax									(12,269)	(80,821)
(Loss)/profit for the year									(59,985)	62,794
Depreciation and amortisation for the year	7,288	5,518	9,927	8,578	1,785	1,954	3,018	2,112	22,018	18,162
Reversal of impairment loss	–	–	–	–	–	–	–	8,301	–	8,301
Significant non-cash expenses (other than depreciation and amortisation)	25,193	23,928	9,547	22,662	–	–	17,128	28,844	51,868	75,434
Segment assets	2,140,678	2,183,288	959,517	741,712	59,200	740,391	483,918	306,137	3,643,313	3,971,528
Interest in associates	–	–	31,310	48,036	305,072	433,006	103,021	104,117	439,403	585,159
Total assets									4,082,716	4,556,687
Segment liabilities	661,460	394,562	175,188	252,215	5,752	318,636	331,919	426,570	1,174,319	1,391,983
Capital expenditure incurred during the year	14,049	7,616	24,006	8,781	12,855	8,636	2,463	315	53,373	25,348

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 and less than 10 per cent of the Group's turnover and results were derived from activities conducted outside the PRC.

15 Investment properties

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Valuation:				
At 1 April 2008/2007	112,341	96,295	5,170	4,500
Exchange adjustments	1,445	5,058	–	–
Disposal during the year	–	(3,474)	–	–
Surplus on revaluation	8,430	14,462	30	670
Transfer from fixed assets *(note 16(a))*	9,823	–	–	–
Transfer to fixed assets *(note 16(a))*	(39,000)	–	–	–
At 31 March	93,039	112,341	5,200	5,170

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Held in Hong Kong under long-term leases	2,500	2,900	–	–
Held outside Hong Kong in the PRC under medium-term leases	90,539	109,441	5,200	5,170
	93,039	112,341	5,200	5,170

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31 March 2009 on a market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income allowing for reversionary income potential. The valuations were carried out by an independent firm of surveyors, RHL Appraisal 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) During the year, land and buildings held for own use of $9,823,000 were transferred to investment properties. Upon the transfer, an increase in fair value of $7,388,000 was recorded and dealt with in the property revaluation reserve.

(d) The gross carrying amounts of investment properties of the Group held for use in operating leases were $93,039,000 (2008: $112,341,000).

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.

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

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	5,584	3,613	362	490
After 1 year but within 5 years	7,269	481	12	365
After 5 years	3,175	–	–	–
	16,028	4,094	374	855

16 Property, plant and equipment

(a) Group

	Property under development	Land and buildings held for own use	Furniture, fixtures and fittings	Plant, machinery and equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:						
At 1 April 2007	17,407	135,662	12,884	37,614	38,408	241,975
Additions	8,255	58	3,795	6,777	6,463	25,348
Disposals	–	(6,365)	(35)	(10,376)	(4,593)	(21,369)
Exchange adjustments	1,630	5,425	528	3,298	3,286	14,167
At 31 March 2008	27,292	134,780	17,172	37,313	43,564	260,121
Representing:						
Cost	27,292	134,087	17,172	37,313	43,564	259,428
Valuation in 1992	–	693	–	–	–	693
	27,292	134,780	17,172	37,313	43,564	260,121
Accumulated amortisation and depreciation:						
At 1 April 2007	–	45,583	5,707	22,277	25,739	99,306
Charge for the year	–	3,230	1,844	5,514	5,419	16,007
Written back on disposals	–	(956)	(31)	(10,371)	(4,418)	(15,776)
Reversal of impairment loss *(Note)*	–	(8,301)	–	–	–	(8,301)
Exchange adjustments	–	2,497	288	1,898	2,101	6,784
At 31 March 2008	–	42,053	7,808	19,318	28,841	98,020
Net book value:						
At 31 March 2008	27,292	92,727	9,364	17,995	14,723	162,101

	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 2008	27,292	134,780	17,172	37,313	43,564	260,121
Transfer from investment properties *(note 15)*	–	39,000	–	–	–	39,000
Additions through acquisition of a subsidiary	–	–	–	3,238	–	3,238
Other additions	12,561	1,714	16,935	11,200	10,963	53,373
Transfer to investment properties *(note 15)*	–	(24,952)	–	–	–	(24,952)
Disposals	–	(90)	–	(172)	(2,000)	(2,262)
Exchange adjustments	604	1,262	213	771	890	3,740
At 31 March 2009	40,457	151,714	34,320	52,350	53,417	332,258
Representing:						
Cost	40,457	151,021	34,320	52,350	53,417	331,565
Valuation in 1992	–	693	–	–	–	693
	40,457	151,714	34,320	52,350	53,417	332,258
Accumulated amortisation and depreciation:						
At 1 April 2008	–	42,053	7,808	19,318	28,841	98,020
Charge for the year	–	3,884	3,696	5,823	6,412	19,815
Transfer to investment properties *(note 15)*	–	(15,129)	–	–	–	(15,129)
Additions through acquisition of a subsidiary		–	–	2,258	–	2,258
Written back on disposals	–	(50)	–	(121)	(2,000)	(2,171)
Exchange adjustments	–	664	106	378	564	1,712
At 31 March 2009	–	31,422	11,610	27,656	33,817	104,505
Net book value:						
At 31 March 2009	40,457	120,292	22,710	24,694	19,600	227,753

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 31 March 2008 and $8,301,000 of the recognised impairment loss was reversed in last year (included in "Non-operating income"). The estimates of recoverable amount were determined on a 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	Motor vehicles	Total
	$'000	*$'000*	*$'000*
Cost or valuation:			
At 1 April 2007	3,455	3,321	6,776
Additions	79	–	79
At 31 March 2008	3,534	3,321	6,855
Accumulated amortisation and depreciation:			
At 1 April 2007	2,729	3,303	6,032
Charge for the year	274	18	292
At 31 March 2008	3,003	3,321	6,324
Net book value:			
At 31 March 2008	531	–	531

	Furniture, fixtures and fittings	Motor vehicles	Total
	$'000	*$'000*	*$'000*
Cost or valuation:			
At 1 April 2008	3,534	3,321	6,855
Additions	2,410	–	2,410
At 31 March 2009	5,944	3,321	9,265
Accumulated amortisation and depreciation:			
At 1 April 2008	3,003	3,321	6,324
Charge for the year	286	–	286
At 31 March 2009	3,289	3,321	6,610
Net book value:			
At 31 March 2009	2,655	–	2,655

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

	Group	
	2009	**2008**
	$'000	*$'000*
Held in Hong Kong under long-term leases	47,084	47,084
Held outside Hong Kong in the PRC under medium-term leases	140,140	110,061
Held outside Hong Kong in the PRC under short-term leases	4,947	4,927
	192,171	162,072

(d) Land and buildings held by a subsidiary with carrying value of $36,913,000 was pledged as security for banking facilities amounting to $38,000,000, which were utilised to the extent of $22,686,000 at 31 March 2008 *(note 26)*. No land and buildings were pledged as security for banking facility at 31 March 2009.

17 Goodwill

	Group
	$'000
Cost:	
At 1 April 2007/2008 and 31 March 2008/2009	1,140,132
Accumulated impairment losses:	
At 1 April 2007/2008 and 31 March 2008/2009 *(Note)*	3,518
Carrying amount:	
At 31 March 2008 and 2009	1,136,614

Note:

Impairment test for cash-generating unit containing goodwill

Goodwill at the balance sheet date primarily related to the distribution network of "Naobaijin", "Golden Wine" and "GoldPartner" operated by the subsidiaries of Central New International Limited ("Central New").

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 2009 and approved budget for the year ending 31 March 2010. In view of the introduction of "Golden Wine" during the year, turnover for the years ending 31 March 2011, 2012, 2013 and 2014 are extrapolated using 31 per cent, 5 per cent, 6 per cent and 6 per cent growth rate respectively and remain constant thereafter in future years. The growth rate is consistent with the growth rate for the industry. Pre-tax discount rates of 16.73 per cent had 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 exceeds its recoverable amount. Any adverse change in the key assumption could reduce the recoverable amount below carrying amount.

18 Other intangible assets

Trademark and patent rights

	Group	
	2009	**2008**
	$'000	*$'000*
Cost:		
At 1 April 2008/2007	43,091	39,401
Exchange adjustments	953	3,690
At 31 March	44,044	43,091
Accumulated amortisation and impairment losses:		
At 1 April 2008/2007	8,797	6,073
Amortisation for the year	2,203	2,155
Exchange adjustments	194	569
At 31 March	11,194	8,797
Carrying amount:		
At 31 March	32,850	34,294

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

19 Interest in subsidiaries

	Company	
	2009	2008
	$'000	*$'000*
Unlisted investments, at cost	288,424	287,137
Amounts due from subsidiaries *(Note)*	2,234,768	2,207,304
Amounts due to subsidiaries *(Note)*	(2,257)	(70,304)
	2,520,935	2,424,137
Less: Impairment loss	(203,498)	(203,498)
	2,317,437	2,220,639

Note: All the amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments except for an amount of $2,043,000 due to a subsidiary at 31 March 2008 which was interest-bearing at London Interbank Offered Rate ("LIBOR") plus 1% per annum.

Details of the principal subsidiaries are set out in note 42 to the financial statements.

20 Interest in associates

	Group		Company	
	2009	2008	2009	2008
	$'000	*$'000*	*$'000*	*$'000*
Unlisted investments, at cost	–	–	102,227	102,227
Share of net assets	448,734	527,444	–	–
Goodwill *(Note (b))*	63,132	63,132	–	–
	511,866	590,576	102,227	102,227
Less: Impairment loss	(72,463)	(5,417)	–	–
	439,403	585,159	102,227	102,227

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

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

After all the conversions and subscriptions, the Group's interest in CCMG decreased slightly from 36.9% to 36.12% as at 31 March 2008 and a loss on deemed disposal of $11,373,000 was recognised in the prior year accordingly *(note 5)*.

(b) In April 2005, the Group acquired a 40% interest in Me To You Holdings Limited ("Cayman MTY") at a consideration of US$19.2 million (equivalent to approximately $149,760,000) by cash. This acquisition has given rise to goodwill of approximately $75,653,000. The goodwill was reduced to $63,132,000 as at 31 March 2008 after receipt of a compensation from the vendor for Cayman MTY's failure in achieving certain predetermined guaranteed profit pursuant to the sale and purchase agreement.

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

(c) Details of the principal associates are set out in note 43 to the financial statements.

(d) Summary of financial information on associates:

	Assets	Liabilities	Equity	Revenue	Loss
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
2009					
100 percent	1,460,065	(285,206)	1,174,859	139,956	(261,300)
Group's effective interest	578,469	(129,735)	448,734	55,909	(128,564)
2008					
100 percent	1,369,013	(247,492)	1,121,521	191,141	(25,742)
Group's effective interest	644,650	(117,206)	527,444	78,744	(14,696)

21 Other financial assets

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Available-for-sale investments				
Listed in Hong Kong	844	1,635	844	1,635
Unlisted	74,256	53,955	51,035	50,134
	75,100	55,590	51,879	51,769
Analysis				
Current	22,114	–	–	–
Non-current	52,986	55,590	51,879	51,769
	75,100	55,590	51,879	51,769
Market value of listed investments	844	1,635	844	1,635
Fair value of individually impaired available-for-sale investments	844	1,635	844	1,635

As at 31 March 2009, the Group's and the Company's listed available-for-sale investments were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the policy set out in note 1(k)(i) *(see note 5)*.

22 Trading securities

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Equity securities, at market value				
Listed in Hong Kong	3,299	14,736	2,930	14,181
Listed outside Hong Kong	–	943,712	–	–
	3,299	958,448	2,930	14,181

During the year, the Group has disposed of approximately 2,500,000 ordinary shares of SINA Corporation with a total sales proceed of $864 million. The disposed shares had a total carrying value of $686 million as at 31 March 2008.

23 Inventories

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Trading and manufacturing				
Raw materials	14,785	14,141	–	–
Work in progress	6,511	1,861	–	–
Finished goods	149,125	159,433	–	–
	170,421	175,435	–	–
Property development				
Properties held for sale	15,470	15,470	15,470	15,470
	185,891	190,905	15,470	15,470

The amount of trading and manufacturing inventories carried at net realisable value is $36,029,000 (2008: $23,909,000).

24 Trade and other receivables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Debtors, prepayments and other receivables	659,017	685,384	4,508	6,440
Amounts due from associates	72,944	58,874	–	–
Amounts due from related companies	10,218	9,308	12,498	12,273
Derivative financial instruments	3,442	–	3,442	–
	745,621	753,566	20,448	18,713

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 34(a).

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

	Group	
	2009	**2008**
	$'000	*$'000*
Current	274,997	443,215
Due within 6 months	155,579	39,967
Due over 6 months but within 12 months	12,841	15,634
Due over 12 months but within 24 months	20,809	22,411
	464,226	521,227

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment losses is written off against trade debtors and bills receivable directly *(see note 1(k)(i))*.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
At 1 April 2008/2007	110,982	107,370	–	–
Exchange adjustments	2,052	8,538	–	–
Impairment loss recognised	5,448	9,170	–	–
Uncollectible amounts written off	–	(14,096)	–	–
At 31 March	118,482	110,982	–	–

At 31 March 2009, the Group's and the Company's trade debtors and bills receivable of $131,987,000 (2008: $124,028,000) and $Nil (2008: $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $118,482,000 (2008: $110,982,000) and $Nil (2008: $Nil) respectively were recognised. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Neither past due nor impaired	274,088	434,046	–	–
Due within 6 months	146,307	39,431	–	–
Due over 6 months but within 12 months	9,517	12,293	–	–
Due over 12 months but within 24 months	20,809	22,411	–	–
	176,633	74,135	–	–
	450,721	508,181	–	–

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

25 Cash and cash equivalents

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Deposits with banks and other financial institutions	173,122	85,177	125,067	17,497
Cash at bank and in hand	845,983	467,845	66,396	38,719
Cash and cash equivalents in the balance sheets and consolidated cash flow statement	1,019,105	553,022	191,463	56,216

26 Bank loans

At 31 March 2008 and 2009, the bank loans were repayable as follows:

	Group	
	2009	**2008**
	$'000	*$'000*
Within 1 year	54,434	151,238
After 1 year but within 2 years	–	1,875
	54,434	153,113

At 31 March 2008, the banking facilities of certain subsidiaries of the Group were secured by mortgages over land and buildings with an aggregate carrying value of $36,913,000 *(note 16(d))*. At 31 March 2008, such banking facilities amounting to $38,000,000, were utilised to the extent of $22,686,000.

27 Other loan

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Balance at 31 March	252,000	311,240	252,000	–

At 31 March 2009, the other loan is reclassified from "Convertible notes" upon expiry of the attached option *(note 29(f))*. On 17 May 2009, the Company entered into an Exchange Agreement with the original convertible note holder, Ready Finance Limited. Upon signing the Exchange Agreement, this loan was changed to an interest-bearing loan at a rate of Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum and will mature on 16 February 2010.

At 31 March 2008, the other loan was secured by 2,500,000 ordinary shares of SINA Corporation held by the Group with carrying value of US$88.2 million (equivalent to approximately $686 million). This loan was interest-bearing at a rate of LIBOR plus 0.5% per annum and was fully repaid during the year.

28 Trade and other payables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Creditors, accruals and other payables	595,104	372,292	8,097	12,973
Amounts due to related companies	4,434	4,059	99	99
	599,538	376,351	8,196	13,072

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

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

	Group	
	2009	**2008**
	$'000	*$'000*
Due within 6 months or on demand	57,775	88,028
Due after 6 months but within 12 months	425	244
Due after 12 months but within 24 months	893	121
Due after 24 months but within 36 months	961	519
	60,054	88,912

29 Convertible notes

	Group and Company	
	2009	**2008**
	$'000	*$'000*
Balance at 1 April 2008/2007	404,279	560,431
Conversion during the year	(56,685)	(168,464)
Effective interest for the year	9,377	12,312
Redemption at maturity	(48,008)	–
Transfer to other loan at maturity	(252,000)	–
Balance at 31 March	56,963	404,279

At 31 March 2008 and 2009, convertible notes were repayable as follows:

	Group and Company	
	2009	**2008**
	$'000	*$'000*
Within 1 year	56,963	318,184
After 1 year but within 2 years	–	86,095
	56,963	404,279

(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.

(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 matured 3 March 2009 continue to be held by Ready Finance Limited. The gain of $24,930,000 arising from the Repurchase has been included in "Non-operating income" in the consolidated income statement for the year ended 31 March 2006.

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

(e) During the year, $57 million of the Original Notes were converted into 109,615,383 ordinary shares of the Company *(note 31)*.

(f) On 3 March 2009, $252 million of the remaining outstanding Notes held by Ready Finance Limited matured. The Company did not redeem the said matured Notes by 31 March 2009. Upon expiry of the attached option, the remaining outstanding Notes were reclassified from "Convertible notes" to "Other loan" in the balance sheets as at 31 March 2009 *(note 27)*.

(g) The effective interest rate of the Original Notes and the Notes for the year ended 31 March 2009 is 4% (2008: 4%).

30 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 in the Company.

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

	2009		**2008**	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
Outstanding at 1 April 2008/2007	$0.724	124,200,000	$0.625	158,212,000
Lapsed	$0.755	(6,800,000)	$0.792	(74,356,000)
Exercised	–	–	$0.476	(83,856,000)
Granted	–	–	$0.724	124,200,000
At 31 March	$0.722	117,400,000	$0.724	124,200,000

As 31 March 2009, 88,050,000 share options are exercisable (2008: 124,200,000).

(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	2009	2008
			Number	*Number*
Options granted to directors and contracted employees				
21 August 2007	21 August 2007 to 20 August 2012	$0.714	55,200,000	57,600,000
21 August 2007	21 August 2008 to 20 August 2012	$0.714	27,600,000	28,800,000
21 August 2007	21 August 2009 to 20 August 2012	$0.714	27,600,000	28,800,000
16 November 2007	16 November 2007 to 15 November 2012	$0.852	3,500,000	4,500,000
16 November 2007	16 November 2008 to 15 November 2012	$0.852	1,750,000	2,250,000
16 November 2007	16 November 2009 to 15 November 2012	$0.852	1,750,000	2,250,000
			117,400,000	124,200,000

(c) Details of share options granted during the year

Exercise period	Exercise price	2009	2008
		Number	*Number*
21 August 2007 to 20 August 2012	$0.714	–	115,200,000
16 November 2007 to 15 November 2012	$0.852	–	9,000,000
		–	124,200,000

31 Share capital

	2009		2008	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	*$'000*	*'000*	*$'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 2008/2007	1,909,281	190,929	1,559,930	155,993
Shares issued upon conversion of convertible notes *(note 29)*	109,615	10,961	266,295	26,630
Shares issued under share option scheme	–	–	83,856	8,386
Repurchase of own shares *(note (a))*	(11,748)	(1,175)	(800)	(80)
At 31 March	2,007,148	200,715	1,909,281	190,929

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.

(a) Repurchase 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*
23 October 2008	554,000	0.210	0.150	114
24 October 2008	1,000,000	0.196	0.190	194
27 October 2008	2,000,000	0.190	0.180	378
28 October 2008	3,000,000	0.200	0.180	577
29 October 2008	540,000	0.199	0.195	107
7 November 2008	1,350,000	0.220	0.193	279
10 November 2008	1,150,000	0.240	0.231	273
11 November 2008	1,244,000	0.240	0.238	298
12 November 2008	380,000	0.240	0.239	91
13 November 2008	530,000	0.240	0.240	127
	11,748,000			2,438

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 $1,174,800 (2008: $80,000) was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of $1,263,000 (2008: $517,000) was charged to retained profits.

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net borrowings to total equity ratio. For this purpose the Group defines net borrowings as total debt (which includes bank loans, other loan and convertible notes) less cash and cash equivalents. Total equity comprises share capital and reserves attributable to equity shareholders of the Company.

The Group has net cash position at 31 March 2009. The net borrowings to total equity ratio at 31 March 2008 was 11.6%. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

32 Capital and reserves

(a) Group

	Share capital	Share premium	Capital redemption reserve	Capital reserve	Other reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Sub-total	Minority interests	Total equity
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 April 2007	155,993	1,180,062	1,021	14,177	76,260	68	67,588	897,384	2,392,553	449,197	2,841,750
Dividend approved and paid during the year *(note 11(b))*	–	–	–	–	–	–	–	(23,192)	(23,192)	–	(23,192)
Minority interest's share of dividend	–	–	–	–	–	–	–	–	–	(57,162)	(57,162)
Shares issued under share option scheme	8,386	31,519	–	–	–	–	–	–	39,905	–	39,905
Share premium on issue of shares upon conversion of convertible notes *(note 31)*	26,630	150,204	–	–	(8,535)	–	–	–	168,299	–	168,299
Shares repurchased *(note 31)*	(80)	–	80	–	–	–	–	(597)	(597)	–	(597)
Share of minority interest in additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	(748)	(748)
Equity settled share-based transactions *(note 30)*	–	–	–	27,984	–	–	–	–	27,984	–	27,984
Exchange differences arising on consolidation	–	–	–	–	–	–	94,942	–	94,942	10,797	105,739
Available-for-sale securities:											
– changes in fair value	–	–	–	–	–	(120)	–	–	(120)	–	(120)
– transfer to profit or loss on impairment	–	–	–	–	–	52	–	–	52	–	52
Profit for the year	–	–	–	–	–	–	–	16,503	16,503	46,291	62,794
At 31 March 2008	190,929	1,361,785	1,101	42,161	67,725	–	162,530	890,098	2,716,329	448,375	3,164,704

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Capital reserve $'000	Other reserve $'000	Investment revaluation reserve $'000	Property revaluation reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Sub-total $'000	Minority interests $'000	Total equity $'000
At 1 April 2008	190,929	1,361,785	1,101	42,161	67,725	–	–	162,530	890,098	2,716,329	448,375	3,164,704
Minority interest's share of dividend	–	–	–	–	–	–	–	–	–	–	(310,353)	(310,353)
Share premium on issue of shares upon conversion of convertible notes *(note 31)*	10,961	46,000	–	–	(314)	–	–	–	–	56,647	–	56,647
Transfer/redemption of convertible notes upon maturity	–	–	–	–	(62,473)	–	–	–	62,473	–	–	–
Shares repurchased *(note 31)*	(1,175)	–	1,175	–	–	–	–	–	(2,438)	(2,438)	–	(2,438)
Share of minority interest on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	19,619	19,619
Lapse of share options *(note 30)*	–	–	–	(2,033)	–	–	–	–	2,033	–	–	–
Equity settled share-based transactions *(note 30)*	–	–	–	8,807	–	–	–	–	–	8,807	–	8,807
Exchange differences arising on consolidation	–	–	–	–	–	–	–	15,762	–	15,762	10,093	25,855
Available-for-sale securities:												
– changes in fair value	–	–	–	–	–	(791)	–	–	–	(791)	–	(791)
– transfer to profit or loss on impairment	–	–	–	–	–	791	–	–	–	791	–	791
Surplus on revaluation of land and buildings held for own use, net of deferred tax	–	–	–	–	–	–	5,541	–	–	5,541	–	5,541
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(141,772)	(141,772)	81,787	(59,985)
At 31 March 2009	200,715	1,407,785	2,276	48,935	4,938	–	5,541	178,292	810,394	2,658,876	249,521	2,908,397

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 has been set up and is 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 share-based payments in notes 1(e) and (r)(ii) respectively.

The exchange fluctuation reserve has been set up and is dealt with in accordance with the accounting policies adopted for the foreign currency transaction in note 1(v).

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(n).

The investment revaluation reserve has been set up and is 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).

Property revaluation reserve relates to surplus on revaluation upon transfer of property from land and buildings held for own use to investment property. Where land and buildings held for own use is reclassified to investment property, the increase in fair value at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(b) Company

	Share capital *$'000*	Share premium *$'000*	Capital redemption reserve *$'000*	Capital reserve *$'000*	Other reserve *$'000*	Investment revaluation reserve *$'000*	Retained profits *$'000*	Total *$'000*
At 1 April 2007	155,993	1,180,062	1,021	–	76,260	68	405,942	1,819,346
Dividend approved and paid during the year *(note 11(b))*	–	–	–	–	–	–	(23,192)	(23,192)
Shares issued under share option scheme	8,386	31,519	–	–	–	–	–	39,905
Share premium on issue of shares upon conversion of convertible notes *(note 31)*	26,630	150,204	–	–	(8,535)	–	–	168,299
Shares repurchased *(note 31)*	(80)	–	80	–	–	–	(597)	(597)
Equity settled share-based transactions *(note 30)*	–	–	–	27,984	–	–	–	27,984
Available-for-sale securities:								
– changes in fair value	–	–	–	–	–	(120)	–	(120)
– transfer to profit or loss on impairment	–	–	–	–	–	52	–	52
Profit for the year	–	–	–	–	–	–	35,888	35,888
At 31 March 2008	190,929	1,361,785	1,101	27,984	67,725	–	418,041	2,067,565
At 1 April 2008	190,929	1,361,785	1,101	27,984	67,725	–	418,041	2,067,565
Share premium on issue of shares upon conversion of convertible notes *(note 31)*	10,961	46,000	–	–	(314)	–	–	56,647
Transfer/redemption of convertible notes upon maturity	–	–	–	–	(62,473)	–	62,473	–
Shares repurchased *(note 31)*	(1,175)	–	1,175	–	–	–	(2,438)	(2,438)
Lapse of share options *(note 30)*	–	–	–	(2,033)	–	–	2,033	–
Equity settled share-based transactions (note 30)	–	–	–	8,807	–	–	–	8,807
Available-for-sale securities:								
– changes in fair value	–	–	–	–	–	(791)	–	(791)
– transfer to profit or loss on impairment	–	–	–	–	–	791	–	791
Profit for the year	–	–	–	–	–	–	261,969	261,969
At 31 March 2009	200,715	1,407,785	2,276	34,758	4,938	–	742,078	2,392,550

At 31 March 2009, the amount of distributable reserves of the Company amounted to $741,833,000 (2008: $418,041,000).

33 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	Revaluation of properties	Deferred revenue	Provision for obsolete inventories	Impairment loss for doubtful debts	Reversal of overprovision and accruals	Deferred expenses	Fair value changes on trading securities	Tax losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Deferred tax arising from:										
At 1 April 2007	694	681	(988)	(4,249)	(2,492)	137	(30,845)	31,113	(273)	(6,222)
Charged/(credited) to consolidated income statement	1,279	1,644	(379)	(3,925)	(438)	21	(19,087)	11,981	(91)	(8,995)
Effect of change in tax rate on deferred tax balances	(39)	(90)	(658)	(746)	(1,661)	91	7,478	–	15	4,390
At 31 March 2008	1,934	2,235	(2,025)	(8,920)	(4,591)	249	(42,454)	43,094	(349)	(10,827)
At 1 April 2008	1,934	2,235	(2,025)	(8,920)	(4,591)	249	(42,454)	43,094	(349)	(10,827)
Charged/(credited) to consolidated income statement	98	2,113	61	(3,038)	(3,395)	6	(59,934)	(43,094)	101	(107,082)
Charged to reserves	–	1,847	–	–	–	–	–	–	–	1,847
At 31 March 2009	2,032	6,195	(1,964)	(11,958)	(7,986)	255	(102,388)	–	(248)	(116,062)

(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	**Tax losses**	**Total**
	$'000	*$'000*	*$'000*
At 1 April 2007	27	(27)	–
Charged/(credited) to income statement	82	(82)	–
Effect of change in tax rate on deferred tax balances	(1)	1	–
At 31 March 2008	108	(108)	–
At 1 April 2008	108	(108)	–
Charged/(credited) to income statement	12	(12)	–
At 31 March 2009	120	(120)	–

(iii) Reconciliation to the balance sheets

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Net deferred tax assets recognised on the balance sheets	(124,041)	(14,647)	–	–
Net deferred tax liabilities recognised on the balance sheets	7,979	3,820	–	–
	(116,062)	(10,827)	–	–

(b) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of unused tax losses of $48,602,000 (2008: $35,359,000) and deductible temporary differences of $40,226,000 (2008: $40,248,000) 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.

34 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. 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 and other receivables and listed debt investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual 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.

(b) Liquidity risk

Individual operating entities with 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 its 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.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

Group

	2009						2008					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Convertible notes	56,963	58,710	58,710	–	–	–	404,279	421,470	331,860	89,610	–	–
Bank loans	54,434	55,008	55,008	–	–	–	153,113	160,079	158,088	1,991	–	–
Other loan	252,000	252,000	252,000	–	–	–	311,240	311,240	311,240	–	–	–
Trade and other payables	599,538	599,538	599,538	–	–	–	376,351	376,351	376,351	–	–	–
	962,935	965,256	965,256	–	–	–	1,244,983	1,269,140	1,177,539	91,601	–	–

Company

	2009						2008					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Convertible notes	56,963	58,710	58,710	–	–	–	404,279	421,470	331,860	89,610	–	–
Other loan	252,000	252,000	252,000	–	–	–	–	–	–	–	–	–
Trade and other payables	8,196	8,196	8,196	–	–	–	13,072	13,072	13,072	–	–	–
	317,159	318,906	318,906	–	–	–	417,351	434,542	344,932	89,610	–	–

(c) Interest rate risk

The Group has interest rate risk as certain interest-bearing borrowings are on a variable rate basis. The Group's interest rate profile as monitored by management is set out below. The Group does not expect any changes on 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.

Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.

	Group				Company			
	2009		2008		2009		2008	
	Effective interest rate		Effective interest rate		Effective interest rate		Effective interest rate	
	%	$'000	%	$'000	%	$'000	%	$'000
Net fixed rate borrowings:								
Bank loans	7.1	54,434	7.8	110,951	–	–	–	–
Convertible notes	4.0	56,963	4.0	404,279	4.0	56,963	4.0	404,279
		111,397		515,230		56,963		404,279
Variable rate borrowings:								
Bank loans	–	–	5.6	42,162	–	–	–	–
Other loan	–	–	5.0	311,240	–	–	–	–
		–		353,402		–		–
Non-interest bearing borrowings:								
Other loan	–	252,000	–	–	–	252,000	–	–
Total net borrowings		363,397		868,632		308,963		404,279
Net fixed rate borrowings as a percentage of total net borrowings		31%		59%		18%		100%

(d) 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 investment 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 is also exposed to foreign currency risk in respect of its United States dollars denominated assets and liabilities.

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in United States dollars.

Group

	2009	**2008**
	United States dollars	**United States dollars**
	$'000	*$'000*
Trading securities	–	88,205
Trade and other receivables	9,641	10,179
Cash and cash equivalents	21,675	2,240
Bank loans	–	(4,856)
Other loan	–	(40,000)
Trade and other payables	(1,141)	(1,576)
Gross exposure arising from recognised assets and liabilities	30,175	54,192

(ii) Sensitivity analysis

Management assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Therefore, the impact on the Group's result and total equity is not expected to be material in response to possible changes in United States dollars to which the Group is exposed.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities *(see note 22)* and available-for-sale equity securities *(see note 21)*. Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed on the Stock Exchange of Hong Kong, the Shanghai Stock and the NASDAQ Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the market and other industry indications, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the relevant stock market index (for listed investments) to which the Group has significant exposure at the balance sheet date.

	2009			2008		
	Increase/ (decrease) in the relevant risk variable	Effect on loss after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in the relevant risk variable	Effect on profit after tax and retained profits	Effect on other components of equity
		$'000	*$'000*		*$'000*	*$'000*
Stock market index in respect of listed investments:						
Shanghai Stock Exchange A Share Index	N/A	–	–	1%	2,633	–
	N/A	–	–	(1)%	(2,633)	–
NASDAQ Composite Index	N/A	–	–	1%	9,396	–
	N/A	–	–	(1)%	(9,396)	–

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's equity investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. The Group's major listed investments were disposed in the current year. No material listed investments were held by the Group as at 31 March 2009.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008 except as follows:

(i) Group and Company

	2009		2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	$'000	*$'000*	*$'000*	*$'000*
Convertible notes	56,963	56,856	404,279	402,568

(ii) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and have no 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 $52,142,000 (2008: $53,955,000) and of the Company of $51,035,000 (2008: $50,134,000) 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.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table set out in note 34(f) 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.

Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using the applicable price/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer.

35 Commitments

(a) Capital commitments

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Contracted for	404	2,237	–	–
Authorised but not contracted for	38,755	38,905	–	–
	39,159	41,142	–	–

(b) Operating lease commitments

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	16,339	11,717	1,137	1,335
After 1 year but within 5 years	11,837	15,209	–	–
	28,176	26,926	1,137	1,335

36 Contingent liabilities

	Group		Company	
	2009	**2008**	**2009**	**2008**
	$'000	*$'000*	*$'000*	*$'000*
Guarantee given to banks to secure banking facilities of subsidiaries	–	–	28,000	63,000

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.

37 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:

		2009	2008
		$'000	*$'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	10	265
	Purchase of traded products and component parts	166	1,742
	Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services *(note (i))*	1,220	3,297
	Rental paid for staff quarters	972	981
	Rental income on properties *(note (ii))*	919	847
	Handling fee *(note (iii))*	–	27
(b)	Transactions with associates of the Group:		
	– Sales of traded products	36	2,820
	– Purchases of traded products and component parts	6,309	2,243

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and the five highest paid employees are disclosed in note 8 and note 9.

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. Such management contract was expired on 22 July 2008.

(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 2009 was calculated at a daily rate of RMB6 per square metre which was considered to be not materially different from the 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 market price.

38 Parent and ultimate controlling party

At 31 March 2009, the directors consider the parent and ultimate controlling party of the Group to be Beijing Stone Investment Company Limited ("BJ Stone Investment") 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.

39 Significant accounting estimates and judgments

Key sources of estimation uncertainty

Notes 17, 20 and 34 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.

– *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.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

In addition, the following developments may result in new or amended disclosures in the financial statements including possible restatement of comparative amounts in the first period of adoption:

		Effective for accounting periods beginning on or after
HK (IFRIC) 13	Customer loyalty programmes	1 July 2008
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments 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.

41 Post balance sheet events

(a) On 12 May 2009, the Company drew an advance under the term loan facility granted by Agricultural Bank of China in the amount of $263 million. The term loan is interest-bearing at 3-month HIBOR plus 1% and secured by the Group's standby letter of credit issued by Hua Xia Bank in favour of Agricultural Bank of China. The term loan will be matured on 15 October 2009.

(b) On 25 May 2009, the Company announced that BJ Stone Investment, a substantial shareholder of the Company, has requested the Board to put forward a proposal to privatise the Company by way of a scheme of arrangement and withdrawal of listing of the Company (the "Proposal"). The shareholders, other than BJ Stone Investment and parties acting in concert with it, will receive from the Company in cash consideration of $0.48 for every share held, for cancellation of their shares held in the Company. The share option holders, other than BJ Stone Investment and parties acting in concert with it, will receive from the Company in cash consideration of $0.001 for every option held, for the cancellation of their options held in the Company. An independent board committee of the Company has been formed comprising the non-executive Director and all three independent non-executive Directors to advise the shareholders of the Company, other than BJ Stone Investment and parties acting in concert with it. A scheme document containing further details of the Proposal will be despatched to the shareholders in due course.

42 Subsidiaries

Details of the principal subsidiaries, which materially affected the results or assets of the Group at 31 March 2009, 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

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
[iv] Shanghai GoldPartner Biotech Co., Ltd.*	PRC	$100,000,000	75%	Manufacture, sale and distribution of healthcare products
[iii] Beijing Stone Electronic Technology Co., Ltd.	PRC	US$21,300,000	100%	Investment holding
[i] 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
[i] Beijing Stone Industrial Control Technology Company Limited*	PRC	RMB30,000,000	61.67%	Sale of industrial controllers products
[ii] Beijing Stone Computer Co., Ltd.* ("Beijing Stone Computer")	PRC	RMB50,000,000	51%	Manufacture and distribution of computers and network components
Sun Stone Media Group Limited*	BVI	$8	[##]51%	Investment holding
[iv] Tianjin Stone Computer Equipment Corporation Limited*	PRC	US$800,000	75%	Manufacture and sale of fluorescent electronic ballasts

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
[i] Stone Online Sci & Tech Co., Ltd. (Beijing)*	PRC	RMB22,500,000	80%	Investment holding
[i] Shanghai Stone Hu Guang Technology Shareholding Company Limited*	PRC	RMB14,000,000	^51%	Sale of mobile phones and industrial paper products
[ii] Guangdong Sunnet Cafe Development Co., Ltd	PRC	RMB20,200,000	60%	Operation of internet cafe chains
[i] China Huaxu Golden Card Company Limited*	PRC	RMB56,018,552	@26.21%	Development, manufacture and distribution of smart card

* Indirect holding.

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

^ This subsidiary is 100% owned by Beijing Stone Computer in which the Company has 51% indirect interest.

@ This subsidiary is 51.4% owned by Beijing Stone Computer in which the Company has 26.21% indirect interest.

i This subsidiary is registered as a limited liability company under PRC law.

ii This subsidiary is registered as a sino-foreign joint venture company under PRC Law.

iii This subsidiary is registered as a wholly foreign owned enterprise under PRC law.

iv This subsidiary is registered as a foreign owned enterprise under PRC law.

43 Associates

Details of the principal associates, which materially affected the results or assets of the Group at 31 March 2009, 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$47,327,457	36.12%	Investment holding
Censoft Company Limited*	PRC	RMB30,000,000	30%	Development and distribution of application software
Shandong New Kaiyuan Real Estate Co., Ltd	PRC	RMB210,000,000	47.62%	Property investment

* Indirect holding.

III. STATEMENT OF INDEBTEDNESS

As at 30 June 2009, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement, the total outstanding borrowings of the Group amounted to approximately HK$845,824,000 which were repayable within a period not exceeding one year. The total outstanding borrowings comprised bank loans of approximately HK$436,339,000 and unsecured other loans of approximately HK$409,485,000. Bank loan of approximately HK$262,870,000 was secured by the Group's standby letter of credit.

Save as disclosed above, the Group had no other bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities as at 30 June 2009.

IV. MATERIAL CHANGES SINCE 31 MARCH 2009

Due to the recent global financial downturn, the Directors noted that the turnover of the Group for the first two months of the current financial year ending 31 March 2010 decreased by approximately 42.7% compared to the corresponding period in the year ended 31 March 2009. The most affected sector was the Group's IT business, which turnover dropped by 49.9% for the two months ended 31 May 2009. Due to the unfavorable market condition, the Group's industrial controllers division's sales dropped by 48.9% for the two months ended 31 May 2009 as compared to the corresponding two months in the year ended 31 March 2009. In respect of the Group's healthcare product business, despite the sales of a new product, Golden Wine, the turnover of the healthcare product business as a whole decreased by 26.3% for the two months ended 31 May 2009 as compared to the corresponding two months in the year ended 31 March 2009. If the sales of the new product is excluded from the turnover of this sector, the decrease in turnover from this sector for the two months ended 31 May 2009 would be 47.2%. Turnovers of Naobaijin and GoldPartner for the two months ended 31 May 2009 decreased by 48% and 45%, respectively, as compared to the same period in the year ended 31 March 2009.

Subsequent to 31 March 2009, in order to prepare financial resources for the launch of the Proposal, the Group raised short term loans from a bank and management of HK$262.9 million and HK$100.5 million respectively. In addition, outstanding convertible notes in the aggregate amount of HK$57 million due on 19 May 2009 were exchanged for unsecured loans due on 19 May 2010. Further, in order to maintain sufficient working capital for normal operation, the Group's healthcare product business sector borrowed a new loan of RMB150 million from a bank in June 2009.

Save as disclosed above, the Directors confirm that there were no material changes in the financial or trading position or outlook of the Group since 31 March 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The information in this document relating to the Group has been supplied by the Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statements in this document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Shares		*HK$*
Authorised:		
5,000,000,000	Authorised share capital of HK$500,000,000 divided into 5,000,000,000 Shares	500,000,000
Issued and fully paid:		
2,007,149,121	Paid up share capital of HK$200,714,912.10 divided into 2,007,149,121 Shares	200,714,912.10

No new Shares have been issued by the Company since 31 March 2009 (being the date to which its latest published audited accounts were prepared). All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital.

As at the Latest Practicable Date, save the Outstanding Options as disclosed in the section headed "Shareholding structure of the Company" in the Explanatory Statement, there were no outstanding options, warrants, derivatives, convertible notes or other securities issued by the Company that carried a right to subscribe for or which were convertible into Shares and no other Director had any interest in the Shares.

3. DISCLOSURE OF INTERESTS UNDER THE SFO

(a) Directors' interests and short positions in the Shares and the shares of the Company's associated corporations

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

(i) Interest in Shares

Name of Director	Nature of interest	Number of Shares	Approximate shareholding percentage *(%)*
Duan Yongji	Personal	140,896,306	7.02
Shi Yuzhu	Corporate *(Note)*	55,263,157	2.75
Ng Ming Wah, Charles	Personal	1,000,000	0.05

Note:

The interest is held by Ready Finance as beneficial owner. Ready Finance is wholly owned by Mr. SHI Yuzhu who is deemed under the SFO to be interested in the underlying shares held by Ready Finance. The interest in underlying shares of equity derivatives of the Company pursuant to share options is beneficially owned by Mr. SHI Yuzhu.

(ii) Interest in underlying shares of equity derivatives of the Company pursuant to Options

Name of Director	Expiry date	Exercise price per Share *(HK$)*	Outstanding at the Last Practicable Date
Duan Yongji	20-8-2012	0.714	15,000,000
Shen Guojun	20-8-2012	0.714	4,000,000
Chen Xiaotao	20-8-2012	0.714	4,000,000
Zhang Disheng	20-8-2012	0.714	6,000,000
Shi Yuzhu	20-8-2012	0.714	5,000,000
Cheng Fumin	15-11-2012	0.852	1,000,000
Ng Ming Wah, Charles	15-11-2012	0.852	2,000,000
Andrew Y. Yan	15-11-2012	0.852	2,000,000
Liu Jipeng	15-11-2012	0.852	2,000,000

Save as disclosed above, as at the Latest Practicable Date, none of the directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they were taken or deemed to have under such provisions of SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed under the Takeover Code.

(b) Substantial shareholders' interests and short positions in the Shares

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions 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 which were required to be entered into the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of Shares *(Long positions)*	Percentage of issued Shares *(%)*
BJ Stone Investment	407,110,053 *(Note 1)*	20.28
BJ Stone Employees' Shareholdings Society	407,110,053 *(Note 2)*	20.28
Jiu Guang	407,110,053 *(Note 2)*	20.28
Shenyang Heguang Group Co. Ltd	407,110,053 *(Note 3)*	20.28
SGC	500,546,466 *(Note 3)*	24.93
深圳發展銀行深圳人民橋支行	310,000,000 *(Note 1)*	15.44

Notes:

1. Out of these 407,110,053 Shares held by BJ Stone Investment, 310,000,000 Shares have been pledged to 深圳發展銀行深圳人民橋支行, which has confirmed that for the purposes of the Proposal, all shareholder's rights (including voting rights) in relation to the pledged Shares are exercisable exclusively by BJ Stone Investment at its own discretion.

2. As at the Latest Practicable Date, BJ Stone Investment is owned as to 51% by BJ Stone Employees' Shareholdings Society, 42.3% by Jiu Guang and 6.7% by SGC. Accordingly, BJ Stone Employees' Shareholdings Society and Jiu Guang are deemed to be interested in the 407,110,053 Shares held by BJ Stone Investment.

3. As at the Latest Practicable Date, Jiu Guang is owned as to 56.14% by Shenyang Heguang Group Co. Ltd. (a company controlled by SGC), 14.04% by Giant Investment Co., Ltd., 14.04% by Guangcai Investment Group Co., Ltd., 7.89% by Mr. Zhang Disheng (an executive Director), 7.01% by Mr. Peng Jianwei and 0.88% by Beijing Stone Information Products Technology Co., Ltd.. Accordingly, Shenyang Heguang Group Co. Ltd and SGC are deemed to be interested in the 407,110,053 Shares which Jiu Guang is deemed to be interested in.

Save as disclosed above, the Directors were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had interests or short positions 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 which were required to be entered into the register required to be kept under Section 336 of the SFO.

4. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

(a) Save as disclosed in the section headed "Shareholding structure of the Company" in the Explanatory Statement, there were no other shareholdings in the Company of the Interested Shareholders and persons acting in concert with any of them or any of their directors.

(b) Save as disclosed in the section headed "Shareholding structure of the Company" in the Explanatory Statement, none of the persons acting in concert with the Interested Shareholders owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.

(c) Other than the Interested Shareholders, there were no other Shareholders (including any Directors who are Shareholders) who have irrevocably committed themselves to accept or reject the Proposal.

(d) There was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code entered into by the Interested Shareholders or any person acting in concert with any of them and any person.

(e) None of the Interested Shareholders nor any person acting in concert with any of them had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

(f) The Company had no holdings of shares, convertible securities, warrants, options or derivatives of the Interested Shareholders.

(g) Save as disclosed in the section headed "Disclosure of Interests under the SFO" of this Appendix II and the section headed "Shareholding structure of the Company" in the Explanatory Statement, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives of the Company, or any shares, convertible securities, warrants, options or derivatives of the Interested Shareholders.

(h) No subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.

(i) There was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code entered into by the Company, or any party who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate in the Takeovers Code.

(j) There was no shareholding in the Company which was managed on a discretionary basis by fund managers connected with the Company.

(k) None of the Company nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

5. DEALINGS IN SECURITIES

(a) None of the Directors, the Interested Shareholders or persons acting in concert with any of them (including directors of the Interested Shareholders) has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(b) The Company has not dealt for value in the shares, convertible securities, warrants, options or derivatives of the Interested Shareholders during the Relevant Period.

(c) None of the Directors has dealt for value in the shares, convertible securities, warrants, options or derivatives of the Interested Shareholders during the Relevant Period.

(d) During the period commencing from the Announcement Date and ending on the Latest Practicable Date:

    (i) none of the subsidiaries of the Company, any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code have dealt for value in any shares, convertible securities, warrants, options or derivatives of the Company;

(ii) no fund managers connected with the Company have dealt for value in any shares, convertible securities, warrants, options or derivatives of the Company;

(iii) no persons having an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code entered into by the Company, or any party who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate in the Takeovers Code have dealt for value in any shares, convertible securities, warrants, options or derivatives of the Company;

(iv) no person with whom any of the Interested Shareholders or any person acting in concert with any of them having any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code have dealt for value in any shares, convertible securities, warrants, options or derivatives of the Company; and

(v) no persons who have irrevocably committed themselves to accept or reject the Proposal have dealt for value in any shares, convertible securities, warrants, options or derivatives of the Company.

6. MARKET PRICES

(a) The lowest and highest closing prices for the Shares recorded on the Stock Exchange during the Relevant Period were HK$0.232 per Share on 18 March 2009 and HK$0.430 per Share on 26 May 2009.

(b) The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period and (ii) the Latest Practicable Date:

Date	**Closing price per Share** *(HK$)*
28 November 2008	0.290
31 December 2008	0.290
30 January 2009	0.285
27 February 2009	0.245
31 March 2009	0.310
30 April 2009	0.290
29 May 2009	0.430
30 June 2009	0.400
31 July 2009	0.410
Latest Practicable Date	0.405

(c) The closing price of the Shares as quote on the Stock Exchange on the Last Trading Date was HK$0.345 per Share.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance to the Group as a whole and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by the Group after the date two years before the Announcement Date and up to and including the Latest Practicable Date which are, or may be, material:

(a) A shareholders' agreement dated 18 June 2007 entered among the Company, Seasource Holdings Limited ("Seasource") and six other independent third parties for the purpose of regulating the operation and management of Stone Resources to engage in mineral resources exploration in the Middle East region, Africa and other countries and other ancillary business. Mr. Duan Yongji, the Chairman and the Chief Executive Officer of the Company, is the beneficial owner of Seasource. The total issued share capital of Stone Resources is HK$60,000,000 divided into 60,000,000 shares of HK$1 each, of which 10,000,000 and 12,000,000 shares were allotted to the Company and Seasource, respectively. The remaining 38,000,000 shares were allotted to the six other independent third parties. Details of the shareholders' agreement were disclosed in the announcement of the Company dated 18 June 2007.

(b) A framework agreement dated 11 July 2007 made between the Company and Stone Resources, pursuant to which, Stone Resources undertook to grant to the Company a first right of co-operation in relation to mineral resources. Details of the framework agreement were disclosed in the announcement of the Company dated 11 July 2007.

(c) A supplemental deed dated 2 August 2007 made among the Company, Gotech Holdings Limited ("Gotech"), Richland International Limited ("Richland"), Yearbase International Limited ("Vendor") and Chen Zhi Fang ("Mr. Chen"), pursuant to which the parties agreed, as obligations of the Vendor and Mr. Chen for failing to meet the guaranteed profit under the sale and purchase agreement dated 7 March 2005, the Vendor shall (a) transfer to Gotech and Richland 4,500 and 5,600 ordinary shares in Me To You Holdings Limited ("MTY Holdings"), respectively, for nil consideration; (b) for the consideration of US$1.00, irrevocably and unconditionally grant to Gotech the option to acquire, at any time 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 Period"), 1,900 ordinary shares in MTY Holdings held by the Vendor ("Option Shares") for a consideration of US$1.00; and (c) at the consideration of US$1.00, assign the dividend derived from the Option Shares in MTY Holdings during the Option Period to Gotech. Details of the supplemental deed were disclosed in the announcement of the Company dated 3 August 2007.

(d) The articles of association of Shandong New Kaiyuan Real Estate Co., Ltd ("New Kaiyuan") were amended on 29 October 2007, pursuant to which the Company's equity interest in New Kaiyuan was increased from 15% to 47.62%. The registered capital of New Kaiyuan was increased from RMB150,000,000 to RMB210,000,000.

(e) The Company entered into a Series C Preferred Shares Subscription Agreement on 19 October 2007 to subscribe for 934,580 Series C Preferred Shares of Cathay Industrial Biotech Limited ("Cathay") at US$5.35 per share. The total number of issued Series C Preferred Shares of Cathay was 25,312,175.

(f) The Company entered into a third amended and restated shareholders agreement on 19 October 2007 with the existing ordinary shareholders, Series A preferred shareholders, Series B preferred shareholders and Series C preferred shareholders of Cathay, Cathay and Mr. Xiucai Liu to regulate the affairs of Cathay and their relationship inter se as shareholders of Cathay on the terms and conditions set out in the agreement.

(g) A co-operative agreement dated 18 September 2008 made between Beijing Wen Jia Investment Company Limited（北京溫嘉投資有限公司）、Beijing Wen Jia Consultation Centre（北京溫嘉咨詢中心）(collectively "Party A") and Shanghai Jianjiu Biotech Co., Ltd.（上海健久生物科技有限公司）(a 75% owned subsidiary of the Company, "Party B"), pursuant to which, (1) Party B will pay Party A RMB9,164,981 for the profit of RMB91,649,814 realized in the disposal of the A shares of China Railway Erju Co. Ltd.（中鐵二局股份有限公司）("CR Erju") before the agreement date; (2) Party A will collect information and conduct research on CR Erju to understand and assess the results of its major operation, and finally suggest to Party B at what price should the A shares of CR Erju be sold. 10% of the profit or loss on the disposal of the A shares of CR Erju will be shared/borne by Party A.

(h) A confirmation dated 18 September 2008 was signed between Party A, Party B and Beijing Centergate Technologies (Holding) Co., Ltd. Labour Union Employee Trust Fund Representative（北京中關村科技發展（控股）股份有限公司工會所屬員工基金代表）("Party C"), pursuant to which Party C confirmed the contents of the co-operative agreement mentioned in paragraph (g) above and agreed to have Party B act on its behalf to handle the A shares of CR Erju beneficially owned by it.

Other than the interests of Mr. Duan Yongji in the contracts described in (a) and (b) above, there were no material contracts entered into by the Interested Shareholders in which any Director has a material personal interest as at the Latest Practicable Date.

9. QUALIFICATIONS

The following are the qualifications of the experts who have given opinions or advices which are contained or referred to in this document:

Name	Qualification
Macquarie Capital (Hong Kong) Limited	A licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), licensed to conduct Type 6 (advising on corporate finance) regulated activity
Anglo Chinese Corporate Finance, Limited	A licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

10. CONSENTS

Each of Macquarie and Anglo Chinese has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of copies of its opinion, letter and/or references to its name, in the form and context in which they appear.

11. GENERAL

(a) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office or otherwise in connection with the Proposal.

(b) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal.

(c) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Interested Shareholders or any person acting in concert with any of them and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Proposal.

(d) As at the Latest Practicable Date, there were no agreements or arrangements to which any of the Interested Shareholders is party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

(e) The registered address of the Company is at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

(f) The registered office of Macquarie, the financial adviser to the Company, is at 18/F One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(g) The registered address of Anglo Chinese, the independent financial adviser to the Independent Board Committee, is at 40/F Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

(h) The addresses and directors (where applicable) of the Interested Shareholders are as follows:

Name of Interested Shareholder	Address	Directors
Beijing Stone Investment Company Limited	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	Duan Yongji, Shen Guojun, Zhang Disheng, Liu Yong, Zhu Xiduo, Pan Qi, Lu Fang
Stone Group Corporation	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	Duan Yongji, Ma Mingzhu, Shen Guojun, Li Wenjun, Zhang Disheng, Xu Changping, Zhu Xiduo, Chen Xiaotao
Wise Expand Developments Limited	27/F., K. Wah Centre, 191 Java Road, North Point, Hong Kong	Duan Yongji, Zhang Disheng
Ready Finance Limited	26/F, Jinyulan, No. 1 Dapu Road, Luwan District, Shanghai, PRC 200023	Shi Yuzhu
Duan Yongji	27/F., K. Wah Centre, 191 Java Road, North Point, Hong Kong	–

Name of Interested Shareholder	Address	Directors
Management Shareholders		
Yu Dongmei	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Wu Huan	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Wu Qiong	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Yang Langtao	Rm 2802, Zhongguan Village Technology Building, No. 2911 Zhongshan Road North, Shanghai, PRC 200069	–
Jing Xiangdong	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Lu Fang	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–

Name of Interested Shareholder	Address	Directors
Ma Xin	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Xu Jingyao	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Yu Xiangqun	5/F, Block D, Beijing International Building, No. 18 Section A of Zhongguan Village Avenue South, Haidian District, Beijing City, PRC 100081	–
Zhang Changji	27/F., K. Wah Centre, 191 Java Road, North Point, Hong Kong	–
Leung Suk Kam	27/F., K. Wah Centre, 191 Java Road, North Point, Hong Kong	–

(i) The company secretary of the Company is Mr. Hui Yick Lok, Francis, who is a member of the Hong Kong Institute of Certified Public Accountants.

(j) The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(k) As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the Announcement Date; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

(l) The English text of this document and the forms of proxy shall prevail over the Chinese text in the case of inconsistency.

12. EXPENSES OF THE SCHEME

The expenses of the Scheme incurred or to be incurred by the Company, which primarily consist of fees for financial advisers, legal advisers, printing and other related charges, are expected to amount to approximately HK$21.7 million.

In the event that the Scheme becomes effective, the Company will bear its own expenses incurred in connection with the Scheme. In the event that the Scheme is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with the Scheme will be borne by the Interested Shareholders in accordance with Rule 2.3 of the Takeovers Code.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at 27th Floor, K.Wah Centre, 191 Java Road, North Point, Hong Kong from 9:00 a.m. to 5:00 p.m. on any weekday (Saturdays, Sundays and public holidays excepted) and on the website of the Company at www.stone.com.hk and on the website of the SFC at www.sfc.hk from the date of this document until the Effective Date or the date on which the Scheme lapses or is withdrawn (whichever is earlier):

(a) the memorandum and articles of association (or equivalent documents) of the Company, BJ Stone Investment, SGC, Wise Expand, and Ready Finance;

(b) the annual reports of the Company for the three years ended 31 March 2007, 2008 and 2009;

(c) the interim report of the Company for the six months ended 30 September 2008;

(d) the letter from the Board as set out on pages 11 to 19 of this document;

(e) the letter from the Independent Board Committee as set out on pages 20 to 21 of this document;

(f) the letter from Anglo Chinese as set out on pages 22 to 57 of this document;

(g) the written consents from the experts referred to in the section headed "Consents" in this Appendix II; and

(h) the material contacts referred to in the section headed "Material contacts" in this Appendix II.

HCMP No. 1517 of 2009

SCHEME OF ARRANGEMENT
IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1517 OF 2009

IN THE MATTER OF
STONE GROUP HOLDINGS LIMITED
四通控股有限公司

AND

IN THE MATTER OF SECTION 166 OF
THE COMPANIES ORDINANCE,
CHAPTER 32 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION

SCHEME OF ARRANGEMENT
Under Section 166 of the Companies Ordinance
Chapter 32 of the Laws of Hong Kong Special Administrative Region

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the meanings respectively set opposite them:

"acting in concert"	has the meaning given to it in the Takeovers Code
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Stone Group Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange
"Director(s)"	director(s) of the Company

"Effective Date"	the date on which the Scheme, if approved, becomes effective in accordance with its terms
"High Court"	the High Court of Hong Kong
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	Shareholders other than the Interested Shareholders and persons acting in concert with any of them
"Interested Shareholders"	Beijing Stone Investment Company Limited, Stone Group Corporation, Wise Expand Developments Limited, Ready Finance Limited, Mr. Duan Yongji, Ms. Yu Dongmei (whose shareholding is held through Vital International Limited), Ms. Wu Huan, Ms. Wu Qiong, Messrs. Yang Langtao, Jing Xiangdong, Lu Fang, Ma Xin and Xu Jingyao, Ms. Yu Xiangqun, Mr. Zhang Changji and Ms. Leung Suk Kam
"Latest Practicable Date"	28 August 2009, being the latest practicable date prior to the issue of the Scheme Document for ascertaining for obtaining certain information contained therein
"Scheme Share(s)"	Share(s) in issue at the Record Time held by the Independent Shareholders
"Share(s)"	share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholders"	registered holders of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Record Time"	4:00 p.m. (Hong Kong time) on the trading day immediately preceding the day when this Scheme becomes effective, being the record time for determining entitlements of the Independent Shareholders under this Scheme
"Register"	the register of members of the Company
"Scheme"	this scheme of arrangement under Section 166 of the Companies Ordinance between the Company and the Independent Shareholders involving, inter alia, the cancellation of all the Scheme Shares
"Scheme Document"	the document dated 31 August 2009 issued by the Company, which includes this Scheme

(B) As at the Latest Practicable Date, the Company had an authorised share capital of HK$500,000,000 divided into 5,000,000,000 Shares, of which 2,007,149,121 Shares had been issued and were fully paid or credited as fully paid.

(C) As at the Latest Practicable Date, the Interested Shareholders were beneficially interested in 854,956,389 Shares in aggregate, representing approximately 42.6% of the issued ordinary share capital of the Company.

(D) In consideration of the cancellation and extinguishment of the Scheme Shares on the Effective Date, all Independent Shareholders as appearing in the Register at the Record Time shall be entitled to receive HK$0.48 in cash for every Scheme Share cancelled.

(E) The Company has agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.

(F) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished, and that the Company will become wholly-owned by the Interested Shareholders.

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:

   (a) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;

   (b) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital referred to in paragraph (a) above to a reserve account in the books of account of the Company

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1(a) of this Scheme, the Company will pay or cause to be paid to each Independent Shareholder as appearing in the Register at the Record Time, HK$0.48 for every Scheme Share cancelled.

PART III

GENERAL

3. (a) Not later than ten days after the Effective Date, the Company shall send or cause to be sent to the Independent Shareholders (as appearing in the Register at the Record Time) cheques in respect of the sums payable to such Independent Shareholders pursuant to paragraph 2 of this Scheme.

(b) Unless indicated otherwise in writing to the share registrar of the Company (being Computershare Hong Kong Investor Services Limited of Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to the persons entitled thereto:

   (i) in the case of sole holders, to the respective registered address of such holders as appearing in the Register as at the Record Time; and

   (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in the Register in respect of the relevant joint holding.

(c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Company for the moneys represented thereby.

(d) All cheques shall be posted at the risk of the addressees and once posted, none of the Company or any of its officers or agents shall be liable for any loss or delay in transmission.

(e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Company shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in an account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. No payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to paragraph 2 of this Scheme. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

(f) On the expiry of six years from the Effective Date, the Company (or any successor company thereto) shall be released from any further obligations to make any payments under this Scheme and the Company shall thereafter retain the balance (if any) of the sums standing to the credit of the account referred to in paragraph 3(e) of this Scheme, including accrued interest (if any) subject, if applicable, to the deduction of interest or any withholding or other tax or any other deductions required by law and subject also to the deduction of any expenses.

(g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

4. As from and including the Effective Date:

(a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;

(b) all instruments of transfer validly subsisting at the Record Time in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and

(c) all mandates or other instructions to the Company in force at the Record Time in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

5. This Scheme shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme, a minute relating to the reduction of capital of the Company containing the particulars required by Section 61 of the Companies Ordinance, shall have been registered by the Registrar of Companies.

6. The Company may consent for and on behalf of all parties concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the High Court may see fit to approve or impose without any further court meeting to be held therefor.

7. In the event that this Scheme becomes effective, the Company will bear its own expenses incurred in connection with this Scheme. In the event that this Scheme is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with this Scheme will be borne by the Interested Shareholders.

Dated 31 August 2009

SCHEME OF ARRANGEMENT
IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1517 OF 2009

IN THE MATTER OF
STONE GROUP HOLDINGS LIMITED
四通控股有限公司

AND

IN THE MATTER OF SECTION 166 OF
THE COMPANIES ORDINANCE,
CHAPTER 32 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION

SCHEME OF ARRANGEMENT
Under Section 166 of the Companies Ordinance
Chapter 32 of the Laws of Hong Kong Special Administrative Region

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 25 August 2009 (the "Order") made in the above matters, the Court of the Hong Kong Special Administrative Region (the "High Court") has directed a meeting (the "Meeting") to be convened of the holders of the Scheme Shares (as defined in the scheme of arrangement hereinafter mentioned) for the purposes of considering and, if thought fit, approving, with or without modification, a scheme of arrangement proposed to be made between Stone Group Holdings Limited (the "Company") and the holders of the Scheme Shares (the "Scheme"), and that the Meeting will be held at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong on Wednesday, 23 September 2009 at 10:00 a.m. at which place and time all holders of the Scheme Shares are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the "Explanatory Statement") explaining the effect of the Scheme, required to be furnished pursuant to Section 166A of the above mentioned Ordinance, are incorporated in the composite document of which this Notice forms part.

The above-mentioned holders of the Scheme Shares may vote in person at the Meeting or they may appoint not more than two persons, whether a member of the Company or not, as their proxy or proxies to attend and, on a poll, vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the composite document of which this Notice forms part.

In the case of joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the share.

It is requested that forms appointing proxies, together with the letter or power of attorney under which it is signed or a notarially certified copy thereof, in the case of a corporation either under its common seal or under the hand of an attorney or a duly authorised officer in that behalf and to the satisfaction of the directors of the Company, be deposited at the registered office of the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 48 hours before the appointed time for the holding of the Meeting or the adjourned meetings. Forms of proxy may also be handed to the Chairman of the Meeting at the Meeting if not so lodged. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the Meeting on the day and at the place, but before the commencement, of the Meeting or the adjourned meetings.

By the Order, the High Court has appointed Mr. Liu Jipeng, or failing him, Mr. Zhang Disheng, to act as chairman of the Meeting and has directed the chairman of the Meeting to report the results of the Meeting to the High Court.

The Scheme will be subject to the subsequent approval of the High Court as set out in the Explanatory Statement contained in the document of which this Notice forms part.

Dated the 31st day of August 2009.

Huen Wong & Co in association with
Fried, Frank, Harris, Shriver & Jacobson LLP
9th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Solicitors for Stone Group Holdings Limited

The directors of the Company as at the date of this notice are as follows:

Messrs. DUAN Yongji, SHI Yuzhu, SHEN Guojun, CHEN Xiaotao, ZHANG Disheng and LIU Zuowei as executive directors, Mr. CHENG Fumin as non-executive director and Messrs. NG Ming Wah, Charles, Andrew Y. YAN and LIU Jipeng as independent non-executive directors.

STONE GROUP HOLDINGS LIMITED
四 通 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 409)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "Meeting") of Stone Group Holdings Limited (the "Company") will be held at Room 101-103, Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong on Wednesday, 23 September 2009 at 10:30 a.m. (or so soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution:

SPECIAL RESOLUTION

"**THAT**:

(A) the proposed scheme of arrangement (the "Scheme") between the Company and holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved by the High Court of the Hong Kong Special Administrative Region (the "High Court"), be and is hereby approved;

(B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):

(i) the authorised and issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares; and

(ii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital referred to in sub-paragraph (B)(i) above to a reserve account in the books of account of the Company; and

(C) the directors of the Company be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the withdrawal of the listing of the Company's shares on the Stock Exchange, subject to the Scheme taking effect; and

(D) the directors of the Company be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the High Court may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the Proposal (as defined in the document of which the notice of this resolution forms part) as a whole."

By Order of the Board
Stone Group Holdings Limited
DUAN Yongji
Chairman

Dated 31st day of August 2009

Notes:

(a) A white form of proxy for use at the Meeting is enclosed to the composite document.

(b) A member entitled to attend and vote at the Meeting is entitled to appoint not more than two persons as proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

(c) In order to be valid, the white form of proxy, together with the letter or power of attorney under which it is signed or a notarially certified copy thereof, in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer in that behalf and to the satisfaction of the directors of the Company must be deposited at the registered office of the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 48 hours before the appointed time for the holding of the Meeting or the adjourned meetings. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at 27th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the Meeting on the day and at the place, but before the commencement, of the Meeting or the adjourned meetings.

(d) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the share.

The directors of the Company as at the date of this notice are as follows:

Messrs. DUAN Yongji, SHI Yuzhu, SHEN Guojun, CHEN Xiaotao, ZHANG Disheng and LIU Zuowei as executive directors, Mr. CHENG Fumin as non-executive director and Messrs. NG Ming Wah, Charles, Andrew Y. YAN and LIU Jipeng as independent non-executive directors.