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

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STONE GROUP HOLDINGS LIMITED

四通控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 409)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF A SHARES OF
CHINA RAILWAY ERJU CO., LTD.**

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DEFINITIONS

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

“A share(s)”	A share(s) of RMB1.00 each in the capital of China Railway Erju being listed on the Shanghai Stock Exchange
“Acquisition”	acquisition of the Shanghai Jianjiu Subscribed Shares
“Board”	the board of Directors
“China Railway Erju”	China Railway Erju Co., Ltd., a company established in the PRC, the A shares of which are listed on Shanghai Stock Exchange on 28 May 2001 (stock code: 600528)
“Company”	Stone Group Holdings Limited, a company incorporated under the laws of Hong Kong, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	15 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Companies
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“PRCco”	北京中關村科技發展(控股)股份有限公司 (Beijing Centergate Technologies (Holding) Co. Ltd), a company established under the PRC with limited liability
“PRCco Employees”	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 (The Representatives of the Employees’ Fund formed under the Labour Union of Beijing Centergate Technologies (Holding) Co. Ltd), which comprises 222 employees of the PRCco
“PRCco Subscribed Shares”	5,826,085 non-public offered A shares beneficially owned by PRCco Employees
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Jianjiu”	上海健久生物科技有限公司 (Shanghai Jianjiu Biotech Co, Ltd), a company established under the PRC with limited liability, which is 75% indirectly owned by the Company
“Shanghai Jianjiu Subscribed Shares”	18,173,915 non-public offered A shares beneficially owned by Shanghai Jianjiu
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“12-month Lock Up Period”	the period from 26 January 2007 up to 25 January 2008 during which the Shanghai Jianjiu Subscribed Shares are restricted from disposal
“%”	per cent.

Conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 = HK\$1.00

LETTER FROM THE BOARD



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 (*Chairman*)
Shi Yuzhu (*Chief Executive Officer*)
Shen Guojun
Chen Xiaotao
Zhang Disheng
Liu Wei

Registered and principal office:

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

Independent non-executive Directors:

Ng Ming Wah, Charles
Andrew Y. Yan
Liu Ji
Liu Jipeng

16 February 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION ACQUISITION OF A SHARES OF CHINA RAILWAY ERJU CO., LTD.

INTRODUCTION

On 7 February 2007, the Company announced that the Company's subsidiary, Shanghai Jianjiu, subscribed for 18,173,915 non-public offered A shares in China Railway Erju at RMB5.05 per Shanghai Jianjiu Subscribed Share on 24 January 2007 and the total consideration payable by Shanghai Jianjiu is RMB91,778,270.75 (equivalent to approximately HK\$91,778,270.75).

LETTER FROM THE BOARD

Since the relevant percentage ratios under Rule 14.07 of the Listing Rules are more than 5% but less than 25%, the Acquisition, when aggregated, constitute a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules.

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

THE ACQUISITION

On 24 January 2007, Shanghai Jianjiu subscribed for 18,173,915 non-public offered A shares in China Railway Erju at RMB5.05 per Shanghai Jianjiu Subscribed Share and the total consideration payable by Shanghai Jianjiu is RMB91,778,270.75 (equivalent to approximately HK\$91,778,270.75). The consideration for the Shanghai Jianjiu Subscribed Shares was fully satisfied by cash with internal resources of the Group on 24 January 2007. The Shanghai Jianjiu Subscribed Shares were issued and registered in the name of Shanghai Jianjiu on 25 January 2007.

The offer price of RMB5.05 per Shanghai Jianjiu Subscribed Share was determined by China Railway Erju, representing a discount of approximately 34.75% to the 20-day average closing price of approximately RMB7.74 per A share of China Railway Erju for the 20 trading days up to 25 January 2007.

By reference to the closing price of RMB11.93 per A share of China Railway Erju as at the Latest Practicable Date, the market value of the Shanghai Jianjiu Subscribed Shares is approximately RMB216,814,806 (equivalent to approximately HK\$216,814,806), which is approximately RMB125,036,535 (equivalent to approximately HK\$125,036,535) higher than the cost of the Acquisition.

Following the completion of China Railway Erju's non-public offer of A shares (including the Shanghai Jianjiu Subscribed Shares), Shanghai Jianjiu beneficially owns approximately 1.99% of the enlarged share capital of China Railway Erju.

The Shanghai Jianjiu Subscribed Shares are subject to a 12-month lock up period from 26 January 2007 up to 25 January 2008, and thereafter the rules as may be imposed by China Securities Regulatory Commission and Shanghai Stock Exchange.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, China Railway Erju, together with its ultimate beneficial owners and their respective associates are third parties independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

LETTER FROM THE BOARD

Shanghai Jianjiu also subscribed for 5,826,085 non-public offered A shares in China Railway Erju on 24 January 2007 upon the request of a business partner of the Group, PRCco, which was issued and registered in the name of Shanghai Jianjiu on 25 January 2007. The PRCco Subscribed Shares are beneficially owned by the PRCco Employees. Shanghai Jianjiu will exercise the voting right derived from the PRCco Subscribed Shares in accordance with the direction of the PRCco Employees who are entitled to the dividend in respect of the PRCco Subscribed Shares. No fee is receivable by Shanghai Jianjiu for holding the PRCco Subscribed Shares. As confirmed by the Company's PRC legal advisor, the aforesaid arrangement is not subject to any PRC regulatory approval. The consideration for the PRCco Subscribed Shares in the sum of RMB29,421,730 (equivalent to approximately HK\$29,421,730) was fully satisfied by cash from the PRCco Employees through Shanghai Jianjiu.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, PRCco, together with its ultimate beneficial owners, the PRCco Employees, and their respective associates are third parties independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

INFORMATION ON CHINA RAILWAY ERJU

China Railway Erju is a company established in the PRC, the shares of which are listed on the Shanghai Stock Exchange. It principally engages in various industrial, energy, transportation and civil engineering construction projects and leasing of machineries.

The following tables show a summary of consolidated financial information of China Railway Erju as disclosed on the website of Shanghai Stock Exchange:

	For the year ended 31 December 2004 (audited) <i>RMB million</i>	For the year ended 31 December 2005 (audited) <i>RMB million</i>	For the nine months ended 30 September 2006 (unaudited) <i>RMB million</i>
Net profit before tax	79.04	92.85	79.56
Net profit after tax	70.13	78.21	60.69
Net asset value	1,789.50	1,806.21	1,805.40

There are no extraordinary items for the years ended 31 December 2004 and 31 December 2005 respectively and the nine months ended 30 September 2006.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

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

The Directors considered that the results of China Railway Erju kept growing in 2004 and 2005 and its financial position as at 31 December 2005 was strong as observed from the financial information of China Railway Erju, and expect that the trading price of the A shares will have a gradual increase in a favourable market. As such, the Directors consider that it is a good investment opportunity to acquire the Shanghai Jianjiu Subscribed Shares will better utilize the resources of the Group with a view to obtain a reasonable return. Therefore, the Directors consider that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the best interest of the Company and its Shareholders as a whole.

Shanghai Jianjiu will not dispose of the Shanghai Jianjiu Subscribed Shares during the 12-month Lock Up Period. If the market condition is favourable, the Company may consider disposal of the Shanghai Jianjiu Subscribed Shares after the 12-month Lock Up Period. Further announcement in accordance with the Listing Rules will be made as and when appropriate.

The Acquisition does not have material effect on the assets and liabilities of the Company as at the date of the Acquisition as cost of the Acquisition will be booked. For the financial year 2004 and 2005, China Railway Erju has distributed dividend of RMB1.5 (equivalent to approximately HK\$1.5) per 10 shares each year. Moreover, the company also distributed a bonus share for every 2 ordinary shares held by their shareholders for the financial year 2005. In view of the dividend policy of China Railway Erju in the past, the Directors expects that the Acquisition will have a positive effect on the Group's earnings.

GENERAL

Since the relevant percentage ratios under Rule 14.07 of the Listing Rules are more than 5% but less than 25%, the Acquisition, when aggregated, constitute a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules.

ADDITIONAL INFORMATION

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

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

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

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

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

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

Notes:

- Beijing Stone Investment Company Limited together with its associates (as defined in the Listing Rules) holds a total of 407,110,053 Shares in the Company. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development (Holdings)

Company Limited, 6.7% by Stone Group Corporation (“SGC”) and 51% by Beijing Stone Investment Company Limited Employees’ Shareholding Society. In addition, SGC is deemed to be interested in 92,374,413 Shares which is being held by SGC’s wholly owned subsidiary, Wise Expand Developments Limited. SGC also directly holds 1,062,000 Shares of the Company. Messrs. Duan Yongji, Chen Xiaotao, Shen Guojun and Zhang Disheng (collectively as “the said Directors”) are also directors of SGC. So long as the said Directors remain as directors of SGC, each of them together with the other employees collectively own interests in the assets of Stone Group Corporation but none of them has any specific interests in SGC.

2. The interest of Ready Finance Limited is held by it as beneficial owner. Ready Finance Limited is wholly owned by Shi Yuzhu who is deemed under the SFO to be interested in the Shares held by Ready Finance Limited.
3. As at the Latest Practicable Date, the number of issued ordinary shares of the Company is 1,559,930,196 and is applied to calculate the relevant percentage.

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

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

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

Name	Nature of interest	Long positions in the Shares and underlying Shares				Aggregate Interest	Approximate percentage of existing issued share capital of the Company (Note 6)
		Interest in Shares	Interest in underlying Shares pursuant to the options	Interest in underlying Shares pursuant to convertible notes			
Beijing Stone Investment Company Limited	Interest of controlled corporation (Note 1)	407,110,053	0	0	407,110,053	26.10	
Beijing Stone Investment Company Limited Employees' Shareholding Society	Interest of controlled corporation (Note 2)	407,110,053	0	0	407,110,053	26.10	
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Interest of controlled corporation (Note 2)	407,110,053	0	0	407,110,053	26.10	
Shenyang Huguang Group Co. Ltd.	Interest of controlled corporation (Note 2)	407,110,053	0	0	407,110,053	26.10	
Stone Group Corporation	Interest of controlled corporation (Note 2)	499,484,466	0	0	499,484,466	32.02	
	Beneficial interest (Note 2)	1,062,000	0	0	1,062,000	0.07	
Shenzhen Development Bank Co., Ltd. (Renminqiao Branch)	Beneficial interest (Note 3)	230,000,000	0	0	230,000,000	14.74	
Ready Finance Limited	Beneficial interest (Note 4)	0	0	492,105,264	492,105,264	31.55	
Duan Yongji	Beneficial interest (Note 5)	45,075,538	3,900,000	182,692,305	231,667,843	14.85	
Shi Yuzhu	Interest of controlled corporation (Note 4)	0	0	492,105,264	492,105,264	31.55	

Notes:

1. The shareholding of 407,110,053 Shares comprises the combined shareholdings of Beijing Stone Investment Company Limited and its associates (as defined in the Listing Rules).
2. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development Holdings Co. Ltd., 6.7% by SGC and 51% by Beijing Stone Investment Company Limited Employees' Shareholding Society which are accordingly deemed to be interested in the said 407,110,053 Shares. Stone Jiu Guang New Technology Development Holdings Co. Ltd. is owned as to 56.14% by Shenyang Huguang Group Co. Ltd. which is accordingly deemed to be interested in the said 407,110,053 Shares. In addition, SGC is deemed to be interested in 92,374,413 Shares, which is being held by SGC's wholly owned subsidiary, Wise Expand Developments Limited. SGC also directly holds 1,062,000 Shares of the Company.
3. The interest of Shenzhen Development Bank Co., Ltd. (Renminqiao Branch) is held by it as person having a security interest in shares under a loan agreement.
4. The interest of Ready Finance Limited is held by it as beneficial owner. Please also refer to note 2 of paragraph (i) above for further information.
5. The interest of Duan Yongji is held by him as beneficial owner. Please refer to note 1 of paragraph (i) above for further information.
6. As at the Latest Practicable Date, the number of issued ordinary Shares of the Company is 1,559,930,196 and is applied to calculate the relevant percentage.

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

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

3. COMPETING INTERESTS

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

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group (excluding contracts expiring or determinable by the Group) within one year without payment of compensation other than normal statutory compensation.

5. LITIGATION

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

6. GENERAL

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