



FOUNDER HOLDINGS LIMITED

方正控股有限公司*

(incorporated in Bermuda with limited liability)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

On 1 August 2003, EC-Founder, an approximately 54.85% owned subsidiary of Founder, entered into the Disposal Agreement with HGL and Mr. Yung Jr.. Pursuant to the Disposal Agreement, EC-Founder has conditionally agreed to sell and HGL has conditionally agreed to purchase the entire issued share capital of MIT for a consideration of HK\$45.5 million. The principal business of the MIT Group is the design, manufacture and sale of electronic products, principally weighing scales.

The operations of the MIT Group are currently managed by Ricwinco pursuant to the Management Agreement, the term of which will expire on 30 September 2003. On 1 August 2003, EC-Founder entered into the Termination Agreement with Ricwinco. Pursuant to the Termination Agreement, the Management Agreement will be terminated upon the Effective Date, i.e. the date of Completion.

The Disposal Agreement constitutes a discloseable transaction for each of Founder and EC-Founder under the Listing Rules. Mr. Yung Jr. is an EC-Founder Director and thus a connected person of Founder and EC-Founder. HGL is owned as to 90% by Mr. Yung Jr. and therefore an associate of Mr. Yung Jr.. Accordingly, the Disposal Agreement constitutes a connected transaction for each of Founder and EC-Founder under the Listing Rules. Approvals from the respective independent shareholders of Founder and EC-Founder are required.

Ricwinco is wholly-owned by Mr. Yung, an EC-Founder Director and a connected person of Founder and EC-Founder, and thus an associate of Mr. Yung. Accordingly, the Termination Agreement constitutes a connected transaction for each of Founder and EC-Founder under the Listing Rules. Ricwinco owns approximately 7.97% of the issued share capital of EC-Founder and is a party to the Termination Agreement. Accordingly, Mr. Yung, Mr. Yung Jr. and their respective associates, including Ricwinco, will abstain from voting at the special general meeting of EC-Founder in respect of the resolution for approving the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder. None of Mr. Yung, Mr. Yung Jr. or their respective associates has any shareholding interest in Founder. No shareholders of Founder will be required to abstain from voting at the special general meeting of Founder in respect of the resolution for approving the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder.

Each of Founder and EC-Founder will despatch to its shareholders on or before 25 August 2003 a circular containing, among other things, particulars relating to the Disposal Agreement and the Termination Agreement, the recommendation from the independent board committee to its independent shareholders, the recommendation from the independent financial adviser, Tai Fook Capital Limited, to the independent board committee of each of Founder and EC-Founder and a notice convening a special general meeting.

Shareholders of Founder and EC-Founder should note that completion of the Disposal Agreement and the Termination Agreement are conditional on the satisfaction of a number of conditions precedent. There is no assurance that all the conditions precedent will be satisfied. The release of this announcement does not in any way imply that the Disposal Agreement and the Termination Agreement will be completed. Shareholders of Founder and EC-Founder should exercise caution when dealing in the shares of Founder and EC-Founder.

THE DISPOSAL AGREEMENT

Date

1 August 2003

Parties

Vendor: EC-Founder
Purchaser: HGL, a company owned as to 90% by Mr. Yung Jr., an EC-Founder Director
Guarantor: Mr. Yung Jr.

Mr. Yung Jr. as a director of Ricwinco is responsible for the management of the MIT Group and is a director of MITC, the principal operating company of the MIT Group. He has agreed to, among other things, (i) unconditionally and irrevocably guarantee to EC-Founder the due and punctual performance by HGL of all its obligations, commitments, undertakings, warranties and covenants under the Disposal Agreement and (ii) indemnify EC-Founder against all losses which EC-Founder may suffer through or arising from any breach by HGL of such obligations, commitments, undertakings, warranties or covenants.

Assets to be sold

HGL has conditionally agreed to purchase and EC-Founder has conditionally agreed to sell the entire issued share capital of MIT, being the holding company of the MIT Group.

The MIT Group is principally engaged in the design, manufacture and sale of electronic products, principally weighing scales. The table below sets out the audited turnover, profit/(loss) before and after tax of each of the EC-Founder Group and the MIT Group for the two years ended 31 December 2001 and 2002:

	2001	2001	2002	2002
	The EC-Founder Group	The MIT Group	The EC-Founder Group	The MIT Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	331,455	169,762	311,933	192,825
Profit/(loss) before tax	(69,279)	4,064 #	(84,271)	4,076
Profit/(loss) after tax	(69,041)	4,064 #	(85,430)	4,076

before deducting a management fee of approximately HK\$4.1 million paid by the MIT Group to EC-Founder (no management fee was charged by EC-Founder to the MIT Group for the year ended 31 December 2002)

Consideration of the Disposal

The total consideration of the Disposal is HK\$45.5 million which shall be payable by HGL to EC-Founder (or as it may direct) in full upon Completion of which (i) an amount equal to the balance of the current account between EC-Founder and MITC, under which EC-Founder is indebted to the latter, (amounting to approximately HK\$2 million as at the date of this announcement) outstanding at the date of Completion will be paid to MITC in cash to settle such current account in full and (ii) the remaining balance of the consideration (of approximately HK\$43.5 million assuming no change to the current balance of the current account) shall be paid to EC-Founder (or as it may direct) in cash.

The consideration was determined after arm's length negotiations between the parties, in particular, with reference to the historical track record of the MIT Group and an independent business valuation of the MIT Group as at 31 May 2003 of approximately HK\$44 million. The business valuation of the MIT Group was carried out by LCH (Asia-Pacific) Surveyors Limited, who has previous experiences in valuing electronic consumer products manufacturers and is not connected with each of Founder, EC-Founder, the directors, chief executive or substantial shareholders of each of Founder and EC-Founder, their respective subsidiaries or their respective associates. The consideration of the Disposal represents (i) approximately 11.2 times the net profit of the MIT Group for the year ended 31 December 2002; and (ii) a premium of approximately 3.4% over the independent business valuation of the MIT Group. The Founder Directors and the EC-Founder Directors consider that the terms of the Disposal Agreement, including the consideration of the Disposal, are fair and reasonable.

Existing Guarantees

EC-Founder currently provides the Existing Guarantees in favour of certain bankers of the MIT Group in relation to the banking facilities granted by such bankers to the MIT Group. As at 31 December 2002, the amount of contingent liabilities of EC-Founder in respect of the Existing Guarantees amounted to approximately HK\$35 million.

As part of the terms of the Disposal Agreement, HGL has to use its best endeavours to procure that arrangements, to the reasonable satisfaction of EC-Founder, will be made with the relevant bankers of the MIT Group with a view to discharging EC-Founder from its obligations and liabilities under the Existing Guarantees (except for Guarantee A) in full upon Completion.

As at the date of this announcement, a total amount of approximately US\$497,000 (equivalent to approximately HK\$3.9 million) of Facility A was utilized by MITC. EC-Founder has requested HGL and HGL has agreed to use its best endeavours to procure that, with effect on or before the date of Completion, the liabilities of MITC under Facility A shall have been reduced to zero and Facility A shall have been cancelled. If HGL fails to procure the reduction of the liabilities of MITC under Facility A to zero and the cancellation of Facility A on or before Completion, HGL is required to procure that the outstanding utilized amount of Facility A shall not exceed HK\$5 million as at the date of Completion and MITC should not further utilize Facility A following Completion.

HGL has agreed to indemnify and keep indemnified EC-Founder, notwithstanding Completion, from and against any loss or liabilities suffered by EC-Founder as a result of or in connection with Guarantee A and shall further use its best endeavours to procure that (i) all of the outstanding utilized amount of Facility A shall have expired, lapsed or released by not later than 6 months from the date of Completion and (ii) EC-Founder's obligations and liabilities under Guarantee A be fully released by not later than 6 months from the date of Completion or, if later, from the date on which all of outstanding utilized amount of Facility A as at the date of Completion shall have expired, lapsed or released.

In addition, HGL has agreed to procure that at Completion, cash collateral and/or securities listed on the Stock Exchange and reasonably acceptable to EC-Founder in an aggregate amount not less than the utilized amount of Facility A outstanding as at the date of Completion shall be deposited with an escrow agent. If EC-Founder suffers any loss or liability as a result of or in connection with Guarantee A and HGL and Mr. Yung Jr. fail to honour their respective indemnity and guarantee under the Disposal Agreement, EC-Founder shall have the rights



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to request the escrow agent to pay EC-Founder any cash collateral and/or to dispose of any securities collateral held by it and pay EC-Founder such cash proceeds in an aggregate amount sufficient to make good the loss or liability suffered by EC-Founder under Guarantee A.

Conditions

Completion is conditional upon the following conditions being fulfilled:

- approvals being obtained from the respective independent shareholders of Founder and EC-Founder approving the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A); and
- arrangements being effected as are necessary for the release of EC-Founder's liabilities and obligations under each of the Existing Guarantees (except for Guarantee A) upon or before Completion to the reasonable satisfaction of EC-Founder.

Completion shall take place within 10 business days after HGL has been notified by EC-Founder the fulfillment of condition 1 above (or such later day as the parties to the Disposal Agreement may agree, provided it is not later than 30 September 2003).

THE TERMINATION AGREEMENT

Background information on the Management Agreement

The Founder Directors and the EC-Founder Directors refer to the joint announcement of Founder and EC-Founder dated 24 May 2000. EC-Founder entered into the Management Agreement on 17 May 2000 with Ricwinco, a company wholly-owned by Mr. Yung, the father of Mr. Yung Jr., pursuant to which Ricwinco was appointed as manager of certain businesses of the EC-Founder Group including that of the MIT Group for a period of three years commencing on 1 October 2000. Under the Management Agreement, Ricwinco has also guaranteed and undertaken, among other things, that for the period from 1 January 2003 to the date of expiry of the Management Agreement on 30 September 2003, the net profit after tax and minority interests of the MIT Group should not be less than approximately HK\$3 million.

Terms of the Termination Agreement

As part of the Disposal Agreement, EC-Founder entered into the Termination Agreement with Ricwinco on 1 August 2003.

Pursuant to the Termination Agreement, conditional upon Completion, the Management Agreement shall be terminated with effect from the date of Completion and each of EC-Founder and Ricwinco shall thereupon be deemed to have unconditionally and irrevocably waived, released and discharged each other from any continuing or outstanding obligations whatsoever in respect of the Management Agreement (including any liabilities of Ricwinco in respect of any profit guarantee provided under the Management Agreement) and to have unconditionally and irrevocably waived and released any accrued rights it may have arising out of any antecedent breach or breaches by any other party of its obligations thereunder.

Despite termination of the Management Agreement, pursuant to the Termination Agreement, Ricwinco has agreed to undertake to indemnify EC-Founder against all losses, costs, expenses, damages and liabilities which EC-Founder and/or any company which, following the Effective Date, will be its subsidiary may incur whether before or after the Effective Date arising in connection with any event taken place prior to the Effective Date and which is directly or indirectly attributable to the business of the MIT Group, and which has arisen out of or in connection with any breach or default of Ricwinco under the terms of the Management Agreement or any gross negligence or misconduct on its part, whilst under the management of Ricwinco pursuant to the Management Agreement, provided that such indemnity of Ricwinco shall not apply to any claim made by EC-Founder when (i) such claim is made after 6 months from the Effective Date or (ii) the losses, costs, expenses, damages and liabilities incurred by EC-Founder and/or its relevant subsidiary have arisen as a result of fraud or gross negligence of EC-Founder or any omission of EC-Founder under the Management Agreement or (iii) any losses, costs, expenses, damages and liabilities incurred by EC-Founder and/or its relevant subsidiaries have arisen as a result of any act, conduct and/or omission by any parties beyond the control or duties of Ricwinco under the Management Agreement.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The EC-Founder Group is principally engaged in (i) the provision of software solutions and services; (ii) the distribution of information products in the People's Republic of China (a business which was acquired by EC-Founder earlier this year); and (iii) the design, manufacture and sale of electronic products (which is carried out by the MIT Group).

Since 2000, the EC-Founder Group has been focusing on the development of information technology related businesses. Earlier this year, EC-Founder acquired an information product distribution business, which is complementary to the business of the development of the provision of software solutions and services of the EC-Founder Group. After such acquisition, more internal resources of the EC-Founder Group are expected to be devoted to the development of the EC-Founder's core information technology related business. Whilst the MIT Group generated certain profits for each of the years ended 31 December 2001 and 2002, the development of its business is relatively capital and working capital intensive. To support the business of the MIT Group, EC-Founder has provided the Existing Guarantees, under which it was exposed to total contingent liabilities of approximately HK\$35 million as at 31 December 2002.

Keen competition in the electronic product market has eroded the profitability of the MIT Group. The average net profit margin of the MIT Group decreased from approximately 2.4% for the year ended 31 December 2001 to approximately 2.1% for the year ended 31 December 2002. The management services and profit guarantee provided by Ricwinco in relation to the MIT Group under the Management Agreement will expire on 30 September 2003. After the expiry of the Management Agreement, EC-Founder will have to manage the operations of the MIT Group itself or appoint another manager to manage the MIT Group and will cease to enjoy the guaranteed return provided by Ricwinco under the Management Agreement. As it is the business strategy of the EC-Founder Group to focus on the development of its information technology related business, the EC-Founder Directors believe that the management of the business of the MIT Group by themselves or appointing another manager to manage the MIT Group after expiry of the Management Agreement will inevitably divert some of the EC-Founder Group's management and financial resources from the core business development areas to non-core areas which may not be in the interest of the EC-Founder Group.

EC-Founder intends to use the net proceeds from the Disposal (estimated to be approximately HK\$42.5 million) as general working capital of the EC-Founder Group. The net proceeds from the Disposal will enhance the working capital position of the EC-Founder Group. Following Completion, the EC-Founder Group will have a clearly focused line of business relating to information technology, including the provision of software solutions and services and the distribution of information products in the People's Republic of China, and therefore be able to deploy all its resources, including human and financial resources in this field of business. For the year ended 31 December 2002, the provision of software solutions and services business recorded a total turnover of approximately HK\$70.8 million and the information product distribution business recorded a total turnover of approximately HK\$514.6 million. As the information product distribution business was acquired by EC-Founder earlier this year, the results of such business were not reflected in the audited financial statements of the EC-Founder Group for the year ended 31 December 2002.

In view of the above reasons, in particular, the worsening business environment of the MIT Group, the impending expiry of the Management Agreement and the corresponding profit guarantee, the expected benefits which may be brought about by the Disposal (including more efficient allocation of resources, enhancement of working capital position of the EC-Founder Group and the release of the obligations and liabilities of EC-Founder under the Existing Guarantees), the Founder Directors and the EC-Founder Directors (with the abstention of Mr. Yung and Mr. Yung Jr.) respectively believe that the Disposal (including the termination of the Management Agreement as part of the Disposal Agreement) is in the interests of the Founder Group and the shareholders of Founder as a whole, and of the EC-Founder Group and the shareholders of EC-Founder as a whole.

GENERAL

The Disposal Agreement constitutes a discloseable transaction for each of Founder and EC-Founder under the Listing Rules. Mr. Yung Jr. is an EC-Founder Director, and thus a connected person of EC-Founder. EC-Founder is owned as to approximately 54.85% by Founder and is a subsidiary of Founder. Accordingly, Mr. Yung Jr. is also a connected person of Founder. HGL is owned as to 90% by Mr. Yung Jr. and therefore an associate of Mr. Yung Jr.. Accordingly, the transactions contemplated under the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) constitute connected transactions for each of Founder and EC-Founder under the Listing Rules. Approvals from the respective independent shareholders of Founder and EC-Founder are required.

Ricwinco is wholly-owned by Mr. Yung, an EC-Founder Director and a connected person of each of Founder and EC-Founder and therefore an associate of Mr. Yung. Accordingly, the Termination Agreement constitutes a connected transaction for each of Founder and EC-Founder under the Listing Rules. Ricwinco owns approximately 7.97% of the issued share capital of EC-Founder and is a party to the Termination Agreement. Accordingly, Mr. Yung, Mr. Yung Jr. and their respective associates, including Ricwinco, will abstain from voting at the special general meeting of EC-Founder in respect of the resolution for approving the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder. None of Mr. Yung, Mr. Yung Jr. or their respective associates has any shareholding interest in Founder. No shareholders of Founder will be required to abstain from voting at the special general meeting of Founder in respect of the resolution for approving the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder.

Each of Founder and EC-Founder will despatch to its shareholders on or before 25 August 2003 a circular containing, among other things, particulars relating to the Disposal Agreement and the Termination Agreement, the recommendation from the independent board committee to its independent shareholders, the recommendation from the independent financial adviser, Tai Fook Capital Limited, to the independent board committee of each of Founder and EC-Founder and a notice convening a special general meeting.

Shareholders of Founder and EC-Founder should note that completion of the Disposal Agreement and the Termination Agreement are conditional on the satisfaction of a number of conditions precedent. There is no assurance that all the conditions precedent will be satisfied. The release of this announcement does not in any way imply that the Disposal Agreement and the Termination Agreement will be completed. Shareholders of Founder and EC-Founder should exercise caution when dealing in the shares of Founder and EC-Founder.

Definitions

"associate(s)"	has the meaning as ascribed to it in the Listing Rules
"Completion"	completion of the Disposal Agreement in accordance with its terms
"connected person"	has the meaning as ascribed to it in the Listing Rules
"Disposal"	the disposal of the entire equity interests of the EC-Founder Group in the MIT Group
"Disposal Agreement"	the conditional agreement made between EC-Founder, HGL and Mr. Yung Jr. dated 1 August 2003 in connection with, among other things, the Disposal
"EC-Founder"	EC-Founder (Holdings) Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"EC-Founder Director(s)"	director(s) of EC-Founder
"EC-Founder Group"	EC-Founder and its subsidiaries
"Effective Date"	the date when the Termination Agreement becomes effective
"Existing Guarantees"	the guarantees provided by EC-Founder in favour of certain bankers of the MIT Group in relation to certain banking facilities granted to the MIT Group
"Facility A"	existing banking facilities to the maximum extent of HK\$5 million made available by a bank to MITC
"Founder"	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Founder Director(s)"	director(s) of Founder
"Founder Group"	Founder and its subsidiaries
"Guarantee A"	the existing guarantee provided by EC-Founder in respect of Facility A
"HGL"	Honour Glory Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 90% by Mr. Yung Jr.
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Management Agreement"	the management agreement entered into between EC-Founder and Ricwinco dated 17 May 2000 relating to, among other matters, the appointment of Ricwinco to manage the business of the MIT Group
"MIT"	MIT Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
"MITC"	Management Investment & Technology Company Limited, a company incorporated in Hong Kong, the entire issued ordinary share capital of which is owned by MIT
"MIT Group"	MIT and its subsidiaries
"Mr. Yung"	Mr. Yung Chih Shin, Richard, an EC-Founder Director and the beneficial owner of Ricwinco
"Mr. Yung Jr."	Mr. Yung Richard, Jr., an EC-Founder Director, who owns a 90% interest in HGL
"Ricwinco"	Ricwinco Investment Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by Mr. Yung
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Termination Agreement"	the deed made between EC-Founder and Ricwinco dated 1 August 2003 in connection with the termination of the Management Agreement which will become effective upon Completion

By Order of the Board
Founder Holdings Limited
Cheung Shuen Lung
Chairman

By Order of the Board
EC-Founder (Holdings) Company Limited
Zhang Zhao Dong
Chairman

Hong Kong, 1 August 2003

* for identification purpose only

*Please also refer to the published version of this announcement in
The Standard and Hong Kong Economic Times.*