

FOUNDER HOLDINGS LIMITED 方正控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0418)

SUBSCRIPTION OF NEW SHARES IN AN UNLISTED SUBSIDIARY CONNECTED TRANSACTION

The Board wishes to announce that on 22 July 2004 Founder Inc., an 88.19% owned subsidiary of the Company, entered into the Subscription Agreement with the Subscriber to issue a total of 870 Founder Inc. Shares in two tranches at a price of JPY300,000 (equivalent to approximately HK\$21,000) per Subscription Share. 333 new Founder Inc. Shares will be subscribed within seven days after the Shareholders' Approval (or such later date as the parties may agree) and 537 new Founder Inc. Shares will be subscribed on the date falling on the sixth month after completion of the first stage as stated above (or such later date as the parties may agree). The Subscription Shares represent approximately 38.62% of the existing issued share capital of Founder Inc. and approximately 27.86% of the enlarged issued share capital of Founder Inc. after the Subscription. Upon completion of the Subscription, the Company's shareholding interest in Founder Inc. will decrease from approximately 88.19% to approximately 63.62%.

The Subscriber is wholly-owned by Mr. Guan, the President and an executive director of Founder Inc. and a Vice President of the Company. As such, the Subscription will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the Shareholders' Approval of the Company at the SGM. Save for the aforementioned relationship, Mr. Guan is not connected with the Company or the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

The proceeds of the Subscription are estimated to be JPY261 million (equivalent to approximately HK\$18 million). It is expected that approximately HK\$10 million of the proceeds may be used by the Founder Inc. Group to finance the development of a potential business project in its ordinary and usual course of business and the balance of the proceeds will be used as general working capital of the Founder Inc. Group. If the Founder Inc. Group is eventually unable to secure the business project, up to approximately HK\$7 million of the proceeds of the Subscription may be used to repay a working capital loan due by Founder Inc. to True Luck Group Limited, an indirect wholly-owned subsidiary of the Company, and the balance of the proceeds will be used as general working capital of the Founder Inc. Group.

A SGM will be convened for the purpose of obtaining the Shareholders' Approval in respect of the Subscription. A circular containing further details of the Subscription, the letter of advice from the independent financial adviser and the recommendation from the independent board committee together with a notice convening the SGM will be despatched to the shareholders of the Company as soon as practicable and in accordance with the requirements of the Listing Rules.

THE SUBSCRIPTION AGREEMENT

The Subscription Shares

On 22 July 2004, Founder Inc. entered into the Subscription Agreement with the Subscriber in respect of the Subscription. Pursuant to the Subscription Agreement, Founder Inc. will issue and the Subscriber will subscribe a total of 870 Founder Inc. Shares in two tranches at JPY300,000 (equivalent to approximately HK\$21,000) per Subscription Share, with a total consideration of JPY261,000,000 (equivalent to approximately HK\$18 million).

Completion of the Subscription shall take place in two stages:

- 333 new Founder Inc. Shares will be subscribed at an aggregate consideration of JPY99,900,000 (equivalent to approximately HK\$7 million) within seven days after the Shareholders' Approval (or such later date as the parties may agree);
- 537 new Founder Inc. Shares will be subscribed at an aggregate consideration of JPY161,100,000 (equivalent to approximately HK\$11 million) on the date falling on the sixth month after completion of the first stage as stated above (or such later date as the parties may agree).

The Subscription is conditional upon the Shareholders' Approval and the Subscription Agreement does not confer to any party the right to waive the condition.

The Subscription Shares represent approximately 38.62% of the existing issued share capital of Founder Inc. and approximately 27.86% of the enlarged issued share capital of Founder Inc. after the Subscription. As at the date of this announcement, the Company held indirectly 1,987 Founder Inc. Shares, representing approximately 88.19% of the issued share capital of Founder Inc. Save for their respective nominees on the board of directors of Founder Inc., those shareholders of Founder Inc. holding the remaining 11.81% of Founder Inc. are independent third parties not connected with the Company or the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates; and none of such shareholders holds 10% or more of the issued share capital of Founder Inc. Upon completion of the Subscription, the shareholding interest of the Company in Founder Inc. will decrease to approximately 63.62%. Founder Inc. will continue to be a non-wholly owned subsidiary of the Company after completion of the Subscription.

The Subscription Shares, when fully paid, will rank pari passu in all respects with the existing Founder Inc. Shares in issue including the right to any dividends or distributions, made or declared after the date of completion of the Subscription.

The Subscriber

The Subscriber is wholly-owned by Mr. Guan, the President and an executive director of Founder Inc. and a Vice President of the Company. Save for the aforementioned relationship, Mr. Guan is not connected with the Company or the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. Save for his holding of 31 share options of Founder Inc. and 600,000 share options of the Company, Mr. Guan and his associates did not hold any Founder Inc. Shares or any shares of the Company as at the date of this announcement. The Directors understand that the Subscriber is an investment holding company and that, save for the entering into of the Subscription Agreement, the Subscriber has not engaged in any business activity.

Mr. Guan is in charge of the day to day operation of the Founder Inc. Group and is responsible for the Group's operation in Japan and South Korea. It is expected that there will not be any material change to Mr. Guan's management role in the Founder Inc. Group upon completion of the Subscription. The Directors understand that Mr. Guan intends to hold the Subscription Shares as a long-term investment.

The subscription price per Subscription Share

In November 2003, Founder Inc. issued and allotted to a wholly-owned subsidiary of the Company 1,000 Founder Inc. Shares credited as fully paid up by cash of JPY300,000,000 (equivalent to approximately HK\$21,000,000) at JPY300,000 (equivalent to approximately HK\$21,000) per Founder Inc. Share which was arrived at after arm's length negotiation between the shareholders of Founder Inc. with reference to the unaudited net asset value of Founder Inc. as at 30 June 2003. The subscription price per Subscription Share of JPY300,000 (equivalent to approximately HK\$21,000) is arrived at after arm's length negotiation between Founder Inc. and the Subscriber with reference to the issue price per Founder Inc. Share allotted to the Company in November 2003. The subscription price per Subscription Share represents a premium of approximately 111.47% over the audited consolidated net asset value per Founder Inc. Share as at 31 December 2003 of approximately JPY141,865 (equivalent to approximately HK\$9,930).

The Board considers that the terms of the Subscription, which were arrived at after arm's length negotiation between Founder Inc. and the Subscriber, are fair and reasonable and are in the interests of the shareholders of the Company. The reasons for and benefits of the Subscription are set out in the section headed "Reasons for and benefits of the Subscription and use of proceeds" below.

CONNECTED TRANSACTION

As the Subscriber is wholly-owned by Mr. Guan who is a connected person of the Company under the Listing Rules, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The deemed disposal of equity interests in Founder Inc. by the Group does not constitute a notifiable transaction under Chapter 14 of the Listing Rules. The Subscription is subject to the Shareholders' Approval at the SGM. If Mr. Guan and his associates hold shares of the Company, they are required to abstain from voting on the resolution to approve the Subscription Agreement.

INFORMATION ON FOUNDER INC.

Founder Inc. was set up by the Group in 1996 originally as an indirect wholly-owned subsidiary of the Company, with a view to developing the Group's businesses in Japan and South Korea. In 2000, certain independent third parties became minority shareholders of Founder Inc. and, as set out in the section headed "The Subscription Agreement" above, they together held approximately 11.81% of the issued share capital of Founder Inc. as at the date of this announcement. Since its establishment, the Founder Inc. Group has been principally engaged in software development and systems integration in electronic publishing system and solution.

For the year ended 31 December 2002, Founder Inc. recorded audited consolidated loss before and after taxation and minority interests of approximately HK\$29.9 million and approximately HK\$20.5 million respectively. For the year ended 31 December 2003, Founder Inc. recorded audited consolidated loss before and after taxation and minority interests of approximately HK\$12.9 million and approximately HK\$12.5 million respectively and an audited consolidated net asset value of approximately HK\$23.1 million.

* For identification purpose only

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

Founder Inc. has exhausted much of its resources in developing its software development and systems integration business as well as the businesses of printing and publishing of magazine in the past few years. The Directors consider that the Subscription will improve the working capital position and strengthen the financial position of the Founder Inc. Group. The Directors also expect that the Subscription will provide further incentive to Mr. Guan and enable the Group to secure his continued devotion to the business development of the Founder Inc. Group. It is preliminarily estimated that a gain of approximately HK\$7 million before deducting expenses will be recorded by the Company arising from the deemed disposal of the interest in Founder Inc. by the Company as a result of the Subscription.

The proceeds of the Subscription are estimated to be JPY261 million (equivalent to approximately HK\$18 million). It is expected that approximately HK\$10 million of the proceeds may be used by the Founder Inc. Group to finance the development of a potential business project in its ordinary and usual course of business and the balance of the proceeds will be used as general working capital of the Founder Inc. Group. The Founder Inc. Group is currently in preliminary discussion with a potential business partner in Japan regarding collaboration arrangement for a business project relating to the use of electronic publishing systems and solutions. Subject to the result of the negotiation, the business project may or may not proceed eventually.

If the Founder Inc. Group is eventually unable to secure the aforementioned business project, up to approximately HK\$7 million of the proceeds of the Subscription may be used to repay a working capital loan due by Founder Inc. to True Luck Group Limited, an indirect wholly-owned subsidiary of the Company, and the balance of the proceeds will be used as general working capital of the Founder Inc. Group.

GENERAL

The Group is principally engaged in software development and systems integration relating to the media industry and certain other industries, and the distribution of information products in the People's Republic of China.

The Board comprises Mr. Cheung Shuen Lung (Chairman and executive Director), Professor Xiao Jian Guo, Professor Wei Xin and Mr. Zhang Zhao Dong (each of whom an executive Director), Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung (each of whom an independent non-executive Director).

A SGM will be convened for the purpose of obtaining the Shareholders' Approval. An independent board committee will be established by the Company to advise the independent shareholders as to whether the proposed Subscription is fair and reasonable so far as the independent shareholders of the Company are concerned. Hantec Capital Limited has been appointed as the independent financial adviser to advise the independent board committee in this regard. A circular containing further details of the Subscription, the letter of advice from the independent financial adviser and the recommendation from the independent board committee together with a notice convening the SGM will be despatched to the shareholders of the Company as soon as practicable and in accordance with the requirements of the Listing Rules.

DEFINITION

"associate(s)"	has the meaning as ascribed to it in the Listing Rules
"Board"	the board of Directors
"Company"	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
"Directors"	the directors of the Company
"Founder Inc."	Founder International Inc., a company incorporated in Japan, an 88.19% owned subsidiary of the Company
"Founder Inc. Group"	Founder Inc. and its subsidiaries
"Founder Inc. Share(s)"	ordinary share(s) in the share capital of Founder Inc.
"Group"	the Company and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"JPY"	Japanese Yen, the lawful currency of Japan
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Guan"	Mr. Guan Xiang Hong, the President and an executive director of Founder Inc. and a Vice President of the Company
"SGM"	the special general meeting proposed to be held by the Company to consider and, if thought fit, approve the Subscription
"Shareholders' Approval"	approval from the independent shareholders of the Company in respect of the Subscription
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Media Champion Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately beneficially wholly-owned by Mr. Guan
"Subscription"	the subscription of the Subscription Shares pursuant to the terms of the Subscription Agreement
"Subscription Agreement"	the share application agreement dated 22 July 2004 made between Founder Inc. and the Subscriber in respect of the Subscription
"Subscription Shares"	a total of 870 new Founder Inc. Shares to be subscribed by the Subscriber

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

Hong Kong, 23 July 2004

For the purpose of this announcement, amounts denominated in JPY have been translated, for the purpose of illustration only, into Hong Kong dollars at a rate of JPY1 = HK\$ 0.07. No representation is made that any amount in JPY or HK\$ could have been or could be converted at the above rate or at any other rates or at all.