

FOUNDER HOLDINGS LIMITED 方正控股有限公司*

(Incorporated in Bermuda with limited liability)

DISCLOSEABLE AND CONNECTED TRANSACTION: ESTABLISHMENT OF A JOINT VENTURE COMPANY WITH SHENZHEN FIYTA HOLDINGS LIMITED AND RESUMPTION OF TRADING ON 11TH DECEMBER 2001

SUMMARY

Founder Holdings Limited, through its wholly-owned subsidiary, Founder (Hong Kong) Limited, entered into a heads of agreement on 7th December 2001 with Shenzhen Fiyta Holdings Limited, a connected person of the Company, to establish a joint venture company with limited liability in the People's Republic of China. Such joint venture is expected to engage in the business of systems integration and the development and distribution of computer-related hardware and software. Pursuant to the Agreement, Founder (Hong Kong) Limited will procure Beijing Founder Electronics Company Limited to sell its computer-related hardware distribution business and such other related non-tangible assets such as sales network and clientele together with related stock and inventory to the joint venture company upon its establishment.

The Agreement constitutes a discloseable transaction under Rule 14.12(1) of the Listing Rules and a connected transaction for the Company under Rule 14.23(1)(b) of the Listing Rules which requires independent shareholders' approval. An independent board committee comprising the independent non-executive directors of the Company has been constituted to consider the terms of the Agreement. DBS Asia Capital Limited has been appointed as the independent financial adviser to the independent board committee for the purpose of advising the independent board committee on the terms of the Agreement. The Company will send shareholders a circular shortly. The purpose of the circular is to provide further details of the Agreement and provide independent shareholders with advice of the independent board committee.

At the request of the Company, the Company has suspended trading of its shares on the Stock Exchange from 10th December 2001 and has applied for a resumption of trading on 11th December 2001.

Heads of Agreement for the establishment of a joint venture company dated 7th December 2001.

PARTIES

- (i) Founder (Hong Kong) Limited; and
- (ii) Shenzhen Fiyta Holdings Limited

STRUCTURES OF THE PROPOSED JOINT VENTURE COMPANY

Founder HK and Shenzhen Fiyta agreed to establish the JV Company in the PRC for a term of 10 years from the date of the business licence of the JV Company to engage in the business of the development and distribution of computer-related hardware and software, and systems integration. Founder HK will hold a 40% equity interest in the JV Company. The board of the JV Company comprises 5 directors, of which Founder HK shall have the right to appoint 2 directors.

The total amount of investment of the JV Company will be RMB150 million (equivalent to approximately HK\$141.51 million). The registered capital of the JV Company will be RMB100 million (equivalent to approximately HK\$94.34 million), of which Founder HK will pay RMB40 million (equivalent to approximately HK\$37.74 million) and Shenzhen Fiyta will pay RMB 60 million (equivalent to approximately HK\$56.60 million) in cash. Such amounts shall be paid in one lump sum within 15 days after the issue of the business licence of the JV Company. The balance of RMB50 million (equivalent to approximately HK\$47.17 million) will be financed by bank borrowings.

The Agreement is subject to the approval from the directors and/or shareholders (in the case of the Company, the independent shareholders' approval) of each of the Company and Shenzhen Fiyta and approval from the applicable regulatory bodies.

SALE OF ASSETS

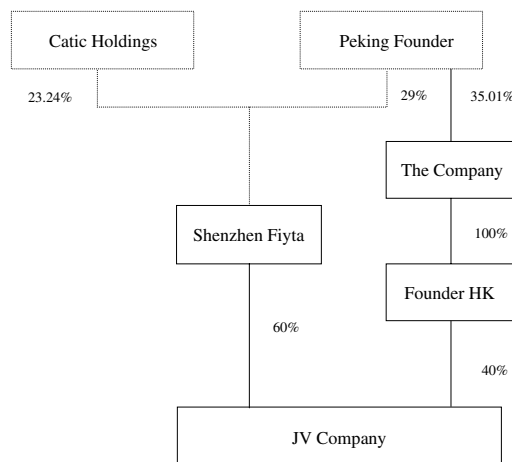
Pursuant to the Agreement, Founder HK will procure Founder Electronics to sell its computer-related hardware distribution business in respect of servers, workstations, notebook computers, laser printers, ink-jet plotters, scanners and networking products for certain world renowned brands and such other related non-tangible assets such as sales network and clientele together with related stock and inventory, including servers, workstations, notebook computers, laser printers, ink-jet plotters, scanners and networking products to the JV Company upon its establishment. The JV Company will in return, pay to Founder Electronics:- (i) RMB10 million (equivalent to approximately HK\$9.4 million) in a lump sum as initial payment; (ii) for each of the 5 years from the establishment of the JV Company, 25% of its annual profit before tax; and (iii) an amount to be agreed upon by the parties based on the independent valuation to be carried out by one of the "big five" international accountant firms on the relevant stock and inventory. For the financial year ended 31st December 2000, the business of the computer-related hardware distribution operated by Founder Electronics made a loss of approximately HK\$13,244,000. Based on the management accounts of Founder Electronics, the Directors estimated that the net book value of the stock and inventory to be transferred pursuant to the Agreement as at 30th September 2001 roughly amounted to HK\$200,000,000. While the exact amount of consideration to be payable by the JV Company pursuant to the Agreement cannot be ascertained accurately as at the date hereof as it involved a future earnings, the total consideration to be payable will roughly amount to HK\$217,688,000 if using an estimated annual profit of the JV Company of RMB7 million (equivalent to approximately HK\$6.60 million) as the reference point.

Founder Electronics agreed to guarantee in favour of Shenzhen Fiyta that the JV Company shall for each of the said five-year period be able to achieve an annual return of being not less than the higher of:- (i) 7% of net asset value of the JV Company and (ii) RMB7 million (equivalent to approximately HK\$6.60 million) profit after tax of the JV Company. Founder Electronics will be responsible for the shortfall in the event that such guarantee cannot be achieved.

DISCLOSEABLE AND CONNECTED TRANSACTION

Peking Founder, the controlling shareholder of the Company interested in 393,402,210 shares in the Company (representing approximately 35.01% of the issued share capital of the Company), has on 7th December 2001 entered into the Acquisition Agreement with Catic Holdings. Pursuant to the Acquisition Agreement, it was agreed, inter alia, that (i) Peking Founder would acquire 29% interest in Shenzhen Fiyta at a consideration of RMB206,495,083; and (ii) Peking Founder would have a majority representation on the board of Shenzhen Fiyta upon completion subject to the necessary shareholders' approval being obtained. Completion of the Acquisition Agreement may or may not proceed subject to the approval from State Assets Bureau (國有資產管理部門) being obtained. A brief diagram of the proposed shareholding structure after the completion of the Acquisition Agreement and the Agreement is set out below:—

Proposed Corporate Structure



In view of the contractual right conferred upon Peking Founder under the Acquisition Agreement regarding the majority representation on the board of Shenzhen Fiyta, Shenzhen Fiyta is being deemed as an associate of Peking Founder, and hence a connected person of the Company. Therefore, the transaction contemplated under the Agreement constitutes a connected transaction under Rule 14.23(1)(b) of the Listing Rules and requires independent shareholders' approval. An independent board committee comprising the independent non-executive directors of the Company has been constituted to consider the terms of the Agreement. DBS Asia Capital Limited has been appointed as the independent financial adviser to the independent board committee for the purpose of advising the independent board committee on the terms of the Agreement. The Acquisition Agreement is subject to the approval from the directors and/or shareholders

* For identification only

(if applicable) of each of Catic Holdings and Peking Founder and approval from State Assets Bureau (國有資產管理部門). If the conditions are not fulfilled (or waived) on or before 30th June 2002, or such other date as Peking Founder may agree in writing, the proposed acquisition may not proceed. In the event that the Acquisition Agreement shall lapse or otherwise be terminated, Shenzhen Fiyta will cease to be an associate of Peking Founder and hence cease to be a connected person of the Company.

As it is currently estimated that the proposed sale of non-tangible assets and related stock and inventory by Founder Electronics to the JV Company roughly amounted to HK\$217,688,000, while the capital to be paid by Founder HK for the establishment of the JV Company amounted to RMB40 million (equivalent to approximately HK\$37.74 million), which in aggregate represent more than 15% but less than 50% of the consolidated net tangible asset value of the Company as at 30th June 2001, the transaction contemplated under the Agreement constitutes a discloseable transaction of the Company. The Company will send shareholders a circular shortly. The purpose of the circular is to provide further details of the Agreement and provide independent shareholders with advice of the independent board committee. In view of the interests of Peking Founder in the Agreement, Peking Founder and its associates will abstain from voting at the special general meeting to be held for, inter alia, approving the Agreement.

INFORMATION ON SHENZHEN FIYTA

Shenzhen Fiyta, a joint stock limited company incorporated under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange, is engaged in the manufacture and sale of watches and clocks, catering and entertainment business.

INFORMATION ON FOUNDER ELECTRONICS

The principal activities of Founder Electronics comprise of electronics publication system and broadcasting system business, hardware distribution business in respect of servers, workstations, notebook computers, laser printers, ink-jet plotters, scanners and networking products for certain world renowned brands and systems integration business. After the sale of assets to the JV Company, Founder Electronics will continue its business of electronics publication system and broadcasting system.

REASONS FOR THE JOINT VENTURE

In recent years, given the fierce competition in the industry, the operating results of Founder Electronics in respect of its hardware distribution business were below the Company's expectation with a loss of approximately HK\$13,244,000 for the year ended 31st December 2000. The Company is of the view that continuous working capital support and further market penetration in term of business volume and market share are required to strengthen the hardware distribution business of Founder Electronics. By establishing the JV Company with Shenzhen Fiyta, being a listed company in the PRC, the Company would be able to take advantage of Shenzhen Fiyta's established customer bases and capture the additional business opportunities in the PRC. The establishment of the JV Company is in line with the Company's overall business strategy to expand and strengthen its scope of business in the systems integration, computer-related hardware and software distribution. On the other hand, the proposed disposal of its computer-related hardware distribution business to the JV Company by Founder Electronics represents a good opportunity for the Company to realize its interest in Founder Electronics at a reasonable price. The Company has not yet designated the use of the proceeds arising from the proposed disposal. The Directors consider the terms of the Agreement are fair and reasonable and is in the best interest of the shareholders as a whole.

SUSPENSION OF TRADING

At the request of the Company, the Company has suspended trading of its shares on the Stock Exchange from 10th December 2001 and has applied for a resumption of trading at 10:00 a.m., 11th December 2001.

* amounts denominated in RMB have been translated, for the purpose of this announcement, into HK\$ at a rate of HK\$1.00 = RMB1.06

By Order of the Board
Cheung Shuen Lung
Director

Hong Kong, 10th December 2001

DEFINITIONS

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

“Acquisition Agreement”	a conditional agreement entered into between Peking Founder and Catic Holdings on 7th December 2001 for, inter alia, the acquisition of 29% interest in Shenzhen Fiyta;
“Agreement”	a heads of agreement for the establishment of the JV Company dated 7th December 2001 and entered into between the Company and Shenzhen Fiyta;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Catic Holdings”	Catic Shenzhen Holdings Limited, a joint stock company with limited liability incorporated under the laws of the PRC, the H shares of which are listed on the Stock Exchange;
“Company”	Founder Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange;
“Director(s)”	directors(s) of the Company;
“Founder Electronics”	Beijing Founder Electronics Company Limited, a company incorporated in the PRC and is a wholly-owned subsidiary of the Company;
“Founder HK”	Founder (Hong Kong) Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“JV Company”	an equity joint venture to be established in the PRC which will be held as to 60% by Shenzhen Fiyta and 40% by Founder HK;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Peking Founder”	Peking University Founder Group Corporation (北京北大方正集團公司);
“PRC”	the People's Republic of China;
“RMB”	Reminbi, the lawful currency of the PRC;
“Shenzhen Fiyta”	Shenzhen Fiyta Holdings Limited, a joint stock limited company incorporated under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange; and
“Stock Exchange”	the Stock Exchange of Hong Kong Limited.

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