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*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0418)

## **CONNECTED AND DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTIONS**

On 7 February 2005, Founder Hong Kong, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser and Peking Founder. Pursuant to the Agreement, Founder Hong Kong has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of True Luck and the Shareholders' Loan. The consideration for the Disposal and the Loan Assignment is JPY623,520,600 and JPY70,000,000 respectively, and the total consideration for the transactions contemplated under the Agreement amounts to JPY693,520,600 (equivalent to approximately HK\$51,667,285), which shall be paid by the Purchaser upon Completion. Peking Founder has agreed to assume the payment obligation of the Purchaser under the Agreement if the Purchaser fails to comply with such obligation.

As at the date of this announcement, the issued share capital of the Company is owned as to approximately 32.67% by Peking Founder, a controlling shareholder and a connected person of the Company within the meaning of the Listing Rules. The Purchaser is a subsidiary of Peking Founder and thus an associate of Peking Founder. Accordingly, the Disposal and the Loan Assignment together constitutes a connected transaction for the Company under Rule 14A.13 of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.18, 14A.45 to 14A.54 of the Listing Rules. The Disposal and the Loan Assignment together also constitutes a discloseable transaction for the Company under the Listing Rules.

Upon completion of the Disposal, the continuing sales of Package Products and the provision of services by Founder Electronics, an indirect wholly-owned subsidiary of the Company, to Founder Japan, which being a subsidiary of True Luck will upon Completion become an associate of Peking Founder, constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and are subject to the disclosure requirements under Rules 14A.37 to 14A.40, 14A.45 to 14A.47 and the approval of the independent Shareholders under Rule 14A.48 of the Listing Rules.

Tai Fook Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee.

A special general meeting will be convened by the Company for the purpose of seeking the approval from its independent Shareholders of the Disposal, the Loan Assignment, the Continuing Connected Transactions and the Japan Annual Cap. Peking Founder and its associates will abstain from voting at the special general meeting of the Company in respect of all of the relevant resolutions.

The Company will despatch to Shareholders a circular containing further details of the Agreement and the Continuing Connected Transactions, the recommendation from the Independent Board Committee to the independent Shareholders, the recommendation from the independent financial adviser to advise the Independent Board Committee and a notice convening a special general meeting.

## THE AGREEMENT

Date: 7 February 2005

- Parties:
- (1) Founder Hong Kong, as vendor
  - (2) Founder Information (Hong Kong) Limited, as purchaser. Founder Information (Hong Kong) Limited is a company incorporated in Hong Kong with limited liability and is a subsidiary of Peking Founder. Its principal activities are export of electronics products and provision of management services.
  - (3) Peking Founder

### Assets to be sold

Pursuant to the Agreement, Founder Hong Kong has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of True Luck and the Shareholders' Loan. The principal asset of True Luck is its approximately 71.29% shareholding in Founder Japan, which in turn is the holding company of a group of companies incorporated in Japan, the PRC, South Korea and Canada respectively, the principal businesses of which are software development and systems integration in electronic publishing systems and solutions which are mainly carried on in Japan. Except for Media Champion Holdings Limited, a company owned by a director of Founder Japan and which holds approximately 11.95% of its issued share capital, the other shareholders of Founder Japan are Independent Third Parties.

Founder Japan was set up in 1996 as an indirect subsidiary of the Company to develop the Group's business in Japan and South Korea. Since the establishment of Founder Japan, the Founder Japan Group has been principally engaged in software development and systems integration in electronic publishing systems and solutions.

The relevant financial information for the respective periods on True Luck is set out below:

|  | <b>Year ended</b><br><b>31 December 2002</b><br><i>HK\$ million</i><br><i>(Note)</i> | <b>True Luck</b><br><b>Year ended</b><br><b>31 December 2003</b><br><i>HK\$ million</i><br><i>(Note)</i> | <b>6 months ended</b><br><b>30 June 2004</b><br><i>HK\$ million</i><br><i>(Unaudited)</i> |
|--|--|--|---|
| Consolidated loss before taxation and minority interests | 29.9   | 6.1  | 6.9   |
| Consolidated loss after taxation and minority interests  | 24.4   | 2.8  | 6.0   |
| Consolidated net asset deficit                           | 0.8  | 3.1  | 9.1   |

*Note:* The above financial information on True Luck has been reviewed and confirmed by the Company's auditors in performing the audit work for preparing the Group's consolidated accounts for the respective periods. Being an intermediate holding company, no audited consolidated accounts of True Luck have been prepared.

### Consideration

The consideration for the Disposal and the Loan Assignment is JPY623,520,600 and JPY70,000,000 respectively, and the total consideration for the transactions contemplated under the Agreement amounts to JPY693,520,600 (equivalent to approximately HK\$51,667,285), which shall be paid by the Purchaser upon Completion. Peking Founder has agreed to assume the payment obligation of the Purchaser under the Agreement if the Purchaser fails to perform such obligation.

### *The Disposal*

As at the date of the Agreement, the entire issued share capital of True Luck is comprised of one share of US\$1.00. As at the date of the Agreement, apart from the Shareholders' Loan, True Luck is also indebted to Founder Hong Kong in the amount of HK\$23,559,004 on current account. It is provided in the Agreement that, prior to Completion, all amounts outstanding from True Luck to Founder Hong Kong other than the Shareholders' Loan will be capitalised into fully-paid shares of True Luck which will form part of the issued share capital of True Luck to be sold to the Purchaser under the Disposal.

The principal asset of True Luck is its interest in Founder Japan. The sale of the entire issued share capital of True Luck under the Disposal would effectively amount to the disposal of the Company's entire holding, through True Luck, of 1,987 shares in Founder Japan, representing approximately 71.29% of its issued share capital. The consideration payable for the Disposal totaling JPY623,520,600 would therefore amount to the equivalent of JPY 313,800 (equivalent to approximately HK\$23,378) per share of Founder Japan which would represent a premium of approximately 121.20% over the audited consolidated net asset value per share of Founder Japan as at 31 December 2003 of approximately JPY 141,865 (equivalent to approximately HK\$10,569). The above effective consideration under the Disposal of JPY313,800 per share of Founder Japan would also represent a premium of approximately 182.43% over the unaudited consolidated net asset value per share of Founder Japan as at 30 June 2004 of approximately JPY 111,107 (equivalent to approximately HK\$8,277).

The consideration for the Disposal was determined after arm's length negotiation between the parties with reference in particular to a number of past transactions including (i) the cost of investment at JPY300,000 per share of Founder Japan paid by True Luck for the subscription of 1,000 new shares, representing 44.39% of the then enlarged issued share capital of Founder Japan, in November 2003, which investment cost had been determined with reference to the unaudited net asset value of Founder Japan as at 30 June 2003; (ii) the subscription price under the subscription agreement dated 22 July 2004 of JPY300,000 per share of Founder Japan, which was the subject of an announcement and a circular of the Company issued on 23 July 2004 and 13 August 2004 respectively and which was approved by the independent Shareholders on 30 August 2004; and (iii) the subscription price of JPY300,000 per share under a share subscription on 12 November 2004 by an Independent Third Party (owned by certain staff members of Founder Japan Group) of 201 shares of Founder Japan, representing 7.21% of the then enlarged issued share capital.

#### *The Loan Assignment*

The consideration payable for the Loan Assignment is equivalent to the outstanding balance of the Shareholders' Loan. Founder Hong Kong has undertaken that the outstanding amount of the Shareholders' Loan as at the date of Completion will not be less than the balance outstanding as at the date of the Agreement, being JPY70,000,000. The Company expects that the outstanding amount of the Shareholders' Loan as at the date of Completion will not be materially different from that sum.

The board of directors of the Company considers that the terms of the Agreement are fair and reasonable so far as the Shareholders are concerned as a whole. The Independent Board Committee will provide their further view and recommendation on the terms of the Agreement subject to the advice of the independent financial adviser in respect thereof.

#### **Conditions**

Completion of the Agreement is conditional upon (a) the obtaining of the approval of the Disposal and the Loan Assignment from the independent Shareholders at a general meeting of the Company by poll and (b) the termination of the investment agreement (to which the Company is a party) dated 15 September 2000 in relation to Founder Japan by certain other shareholders, or the release of all of the obligations of the Company or its subsidiaries under such agreements by the relevant parties thereto. In respect of the approval to be sought from the independent Shareholders, under Rule 14A.18 of the Listing Rules, Peking Founder and its associates are required to abstain from voting on the relevant resolutions to be proposed at such general meeting including the approval of the Disposal and the Loan Assignment.

Completion shall take place fifteen (15) days after the fulfillment of all the conditions under the Agreement, but in any event shall not be later than 30 June 2005. If the conditions precedent under the Agreement are not fulfilled on or before 15 June 2005, the Agreement shall lapse and become null and void and the parties thereto will be released from the obligations under the Agreement.

#### **REASONS FOR AND BENEFITS OF THE DISPOSAL**

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 PRC.

True Luck has been loss-making since 2001 and would require substantial new financial resources for the continuing support of the operation and development of Founder Japan's existing Japanese language electronic publishing software business. For the year ended 31 December 2003, the consolidated loss before and after taxation and minority interests of True Luck amounted to approximately HK\$6.1 million and HK\$2.8 million respectively. For the six months ended 30 June 2004, True Luck recorded a consolidated loss before and after taxation and minority interests of approximately HK\$6.9 million and HK\$6.0 million respectively. As at 30 June 2004, True Luck had a consolidated net asset deficit of HK\$9.1 million. True Luck has been loss-making in the past few years and although the loss of True Luck has been reduced, the Directors have no solid ground to believe when True Luck will record a profit again in the coming future. The Directors consider that the Disposal would relieve the financial burden that the Company would have to shoulder in order to fund the continuing business development and operation of True Luck. The Disposal would also allow the Company to focus its resources on its core business being software development and systems integration relating to multi-media industry in the PRC. In addition, it is estimated that a gain on disposal of approximately HK\$26 million will be recorded by the Company based on the consolidated net asset value of True Luck as at 30 November 2004.

As at the date of this announcement, the issued share capital of the Company is owned as to approximately 32.67% by Peking Founder, a controlling shareholder and a connected person of the Company within the meaning of the Listing Rules. The Purchaser is a subsidiary of Peking Founder and thus an associate of Peking Founder. Accordingly, the Disposal and the Loan Assignment together constitutes a connected transaction for the Company under Rule 14A.13 of the Listing Rules and is subject to the reporting, announcement and independent Shareholders' approval requirements under Rules 14A.18, 14A.45 to 14A.54 of the Listing Rules. The Disposal and the Loan Assignment together also constitutes a discloseable transaction for the Company under the Listing Rules.

#### **CONTINUING CONNECTED TRANSACTIONS**

One of the subsidiaries of the Company carries on trading activities with Founder Japan in the ordinary course of business and will continue to carry on such same activities as described in the section headed "Japan Software Agreement". Following completion of the Disposal, Founder Japan will become a connected person of the Company within the meaning of the Listing Rules and such trading activities will constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and are subject to the disclosure requirements under Rules 14A.37 to 14A.40, 14A.45 to 14A.47 and the approval of the independent Shareholders under Rule 14A.48 of the Listing Rules.

#### **Japan Software Agreement**

Date: 7 February 2005

Parties: (1) Founder Japan  
(2) Founder Electronics

Subject:

- (1) Package Products: Founder Electronics has agreed to appoint and Founder Japan has agreed to accept, the appointment as a non-exclusive distributor of the Package Products in Japan;
- (2) OEM Business:
- (i) Founder Electronics has agreed to provide R&D services to Founder Japan on a project basis;
  - (ii) Founder Japan has agreed to pay Founder Electronics a licence fee for the grant of a non-exclusive, non-transferable, non-sublicensable licence to use the applicable passcode for the operation of the software developed under the R&D services; and
  - (iii) Founder Japan has agreed to pay Founder Electronics a maintenance fee for maintenance and support services in relation to the R&D services.

**Term:** The Japan Software Agreement will have a fixed term of one year renewable for consecutive one year periods automatically unless either party provides to the other a notice of termination at least 60 days prior to expiry. Upon the expiry of the third year, either party may renew the term in writing, subject to compliance with the Listing Rules. Founder Electronics can unilaterally terminate the Japan Software Agreement without cause by serving Founder Japan with not less than 90 days' written notice.

**Consideration:**

**(1) Package Products' Price:** The consideration is determined by reference to a pre-determined price list drawn up by Founder Electronics for all worldwide customers and the sales volume achieved by the relevant distributor.

Founder Electronics will periodically review the price list and has the right to increase the prices at its discretion by serving 90 days' prior written notice.

- (2) OEM Business:**
- (i) R&D Service Fee – a monthly fee of US\$3,000 per person required to be provided by Founder Electronics to participate in the project.
  - (ii) Licence Fee – Not more than 50% of the licence fee of the software received by Founder Japan from its customers, upon request.
  - (iii) Maintenance Fee – 10% of the R&D Service Fee per annum, upon request.

For each of the two years ended 31 December 2004, the total consideration received for the sale of Package Products and the provision of OEM services by activity by Founder Electronics from Founder Japan was as follows:

|                          | <b>For the year ended<br/>31 December 2003 (audited)<br/>US\$/HK\$ equivalent</b> | <b>For the year ended<br/>31 December 2004 (audited)<br/>US\$/HK\$ equivalent</b> |
|--------------------------|---|---|
| Sale of Package Products | US\$23,988/<br>HK\$187,106  | US\$17,520/<br>HK\$136,656  |
| R&D Service Fee          | US\$172,000/<br>HK\$1,341,600   | US\$273,500/<br>HK\$2,133,300   |
| Licence Fee              | –   | US\$297,000/<br>HK\$2,316,600   |
| Maintenance Fee          | US\$12,000/<br>HK\$93,600   | US\$76,500/<br>HK\$596,700  |

## Japan Annual Cap

Pursuant to the terms of the Japan Software Agreement and based on (a) the historical sales volume of Founder Japan; (b) the historical service fees derived from the OEM business; (c) the Group's turnover for the two years ended 31 December 2004 and its anticipated growth; and (d) the expected increase in the transaction volume by Founder Japan in light of the estimated market growth rate of the demand for software products in Japan in the coming three years, the Directors propose that the cap amount of the total transactions under the Japan Software Agreement for each of the three financial years ending 31 December 2007 will be as follows:

|                          | <b>For the year ending<br/>31 December 2005<br/>US\$/HK\$ equivalent</b> | <b>For the year ending<br/>31 December 2006<br/>US\$/HK\$ equivalent</b> | <b>For the year ending<br/>31 December 2007<br/>US\$/HK\$ equivalent</b> |
|--------------------------|--|--|--|
| Sale of Package Products | US\$25,000/<br>HK\$195,000   | US\$42,000/<br>HK\$327,600   | US\$70,000/<br>HK\$546,000   |
| OEM Business             | US\$ 835,000/<br>HK\$6,513,000   | US\$958,000/<br>HK\$7,472,400  | US\$1,280,000/<br>HK\$9,984,000  |
| Total                    | US\$860,000/<br>HK\$6,708,000  | US\$1,000,000/<br>HK\$7,800,000  | US\$1,350,000/<br>HK\$10,530,000   |

The Directors propose that the Japan Annual Cap for each of the three years ending 31 December 2005, 2006 and 2007 shall not exceed US\$860,000 (equivalent to approximately HK\$6,708,000), US\$1,000,000 (equivalent to approximately HK\$7,800,000) and US\$1,350,000 (equivalent to approximately HK\$10,530,000) respectively. The Japan Annual Cap is subject to the approval of the independent Shareholders.

## GENERAL

Tai Fook Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee. The Disposal and Loan Assignment together constitutes a discloseable and connected transaction for the Company under the Listing Rules.

A special general meeting will be convened by the Company for the purpose of seeking the approval from its independent Shareholders of the Disposal, Loan Assignment, the Continuing Connected Transactions and the Japan Annual Cap. Peking Founder and its associates will abstain from voting at the special general meeting of the Company to be held in respect of all of the relevant resolutions.

The Company will despatch to the Shareholders a circular containing further details of the Agreement, the Continuing Connected Transactions, the recommendation from the Independent Board Committee to the independent Shareholders, the recommendation from the independent financial adviser to the Independent Board Committee and a notice convening a special general meeting.

As at the date of this announcement, the board of directors of the Company comprises the executive directors of Mr Cheung Shuen Lung, Professor Xiao Jian Guo, Professor Wei Xin, Mr Zhang Zhao Dong and Mr Xia Yang Jun, and the independent non-executive directors of Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Mrs Wong Lam Kit Yee.

## DEFINITIONS

|                |  |
|----------------|--|
| “Agreement”    | the sale and purchase agreement entered into between Founder Hong Kong, the Purchaser and Peking Founder dated 7 February 2005 in relation to the Disposal and the Loan Assignment |
| “associate(s)” | has the meaning as ascribed to it in the Listing Rules   |
| “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                          |
| “Completion”   | completion of the Disposal and the Loan Assignment in accordance with the terms and conditions of the Agreement  |

|                                     |   |
|-------------------------------------|---|
| “Consideration”                     | JPY693,520,600 (equivalent to approximately HK\$51,667,285), being the consideration for the Disposal of JPY623,520,600 and the consideration for the Loan Assignment of JPY70,000,000, which shall be satisfied by the Purchaser upon Completion   |
| “Continuing Connected Transactions” | transactions contemplated under the Japan Software Agreement  |
| “Directors”                         | the directors of the Company  |
| “Disposal”                          | the disposal of the entire issued share capital of True Luck by Founder Hong Kong to the Purchaser under the Agreement  |
| “Founder Electronics”               | Beijing Founder Electronics Co., Ltd., a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company  |
| “Founder Hong Kong”                 | Founder (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company  |
| “Founder Japan”                     | 方正株式會社 (Founder International Inc.*), a company incorporated in Japan with limited liability and is owned as to 71.29% by True Luck   |
| “Founder Japan Group”               | Founder Japan and its subsidiaries and associated companies   |
| “Group”                             | the Company and its subsidiaries  |
| “Independent Board Committee”       | the board committee appointed by the board of directors of the Company, comprising the independent non-executive directors, to advise the independent Shareholders in relation to the Agreement and the Continuing Connected Transactions   |
| “Independent Third Parties”         | the independent third party 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, within the meaning of the Listing Rules, and none of them holds more than 10% of the issued share capital of the Company |
| “Japan Annual Cap”                  | the annual maximum amount of sales provided under the Japan Software Agreement for each of the year ending 31 December 2005, 2006 and 2007 respectively   |
| “Japan Software Agreement”          | the agreement entered into between Founder Electronics and Founder Japan dated 7 February 2005 in relation to the sale and purchase of the Package Products and other related services  |
| “Listing Rules”                     | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Loan Assignment”                   | the assignment of the Shareholders’ Loan from Founder Hong Kong to the Purchaser in accordance with the terms and conditions of the deed of loan assignment to be signed upon Completion  |
| “OEM”                               | original equipment manufacturer, a manufacturer that sells equipment to a reseller for rebranding or repackaging  |
| “Package Products”                  | printing software under the brandnames of EagleRIP, EagleProof, EagleDot, SuperLine, ElecRoc, EagleFAM and EagleAGS   |

|                      |  |
|----------------------|--|
| “Peking Founder”     | Peking University Founder Group Corporation, the controlling shareholder of the Company, which holds approximately 32.67% of the issued share capital of the Company         |
| “PRC”                | the People’s Republic of China   |
| “Purchaser”          | Founder Information (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Peking Founder                                       |
| “R&D”                | research and development of software development kits  |
| “Shareholders”       | holders of shares of HK\$0.10 each in the issued share capital of the Company  |
| “Shareholders’ Loan” | the loan in the amount of JPY70,000,000 due and owing by True Luck to Founder Hong Kong without interest as at the date of Completion  |
| “Stock Exchange”     | The Stock Exchange of Hong Kong Limited  |
| “True Luck”          | True Luck Group Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Founder Hong Kong |
| “HK\$”               | Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC   |
| “JPY”                | Japanese yen, the lawful currency of Japan   |
| “US\$”               | United States dollars  |

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

Hong Kong, 7 February 2005

\* *for identification purpose only*

*For illustration purpose: JPY1 = HK\$0.0745 and US\$1 = HK\$7.8*



*Please also refer to the published version of this announcement in  
The Standard and Sing Tao Daily.*