

FOUNDER HOLDINGS LIMITED 方正控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 0418)

MAJOR TRANSACTION

Transfer of a 21.85% interest in EC-Founder (Holdings) Company Limited to a strategic partner

On 26 May 2006, Founder entered into the Agreement with the Purchaser, an independent third party. Pursuant to the Agreement, Founder has agreed to sell and the Purchaser has agreed to acquire the Sale Shares, representing approximately 21.85% of the issued share capital of EC-Founder for a cash consideration of approximately HK\$68.5 million. EC-Founder is currently an approximately 54.85% owned subsidiary of Founder. After the Share Transfer, EC-Founder will become an approximately 33% owned associated company of Founder.

The Share Transfer constitutes a major transaction for Founder pursuant to Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements. No Shareholders are required to abstain from voting at the SGM in respect of the resolution to approve the Share Transfer. Founder will despatch to the Shareholders a circular containing, among other things, details of the Share Transfer and a notice convening the SGM as soon as practicable.

THE AGREEMENT

The principal terms of the Agreement are set out as follows:

Date

26 May 2006

Parties

- (1) Founder
- (2) the Purchaser

The Purchaser is an investment holding company and is beneficially wholly-owned by Mr Zheng Fu Shuang (鄭福雙).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Founder Group (including the EC-Founder Group) and connected persons of the Founder Group (including the EC-Founder Group) as defined in the Listing Rules.

Assets to be transferred

The Sale Shares, being 240,425,000 shares in EC-Founder, representing approximately 21.85% of the total issued capital of EC-Founder as at the date of this announcement. The shares of EC-Founder are listed on the Main Board of the Stock Exchange. As at the date of this announcement, the closing price of EC-Founder shares is HK\$0.222. Based on such closing price, the market value of the Sale Shares is approximately HK\$53.4 million.

Founder has agreed to use reasonable endeavours to procure Mr Zheng Fu Shuang of the Purchaser be nominated and appointed as an executive director of EC-Founder upon completion of the Agreement.

Consideration

The total consideration for the Share Transfer is approximately HK\$68.5 million. A cash deposit of HK\$5 million will be paid by the Purchaser within 10 business days from the date of the Agreement (or such other date as may be agreed in writing between the parties to the Agreement). The remaining consideration of approximately HK\$63.5 million shall be paid by the Purchaser in cash in full on the date of completion of the Agreement. The deposit to be paid by the Purchaser will not be refunded to the Purchaser unless the condition precedent is not satisfied prior to the long stop date of the Agreement or Founder fails to satisfy its obligations under the Agreement upon completion.

The consideration was determined after arm's length negotiations between Founder and the Purchaser. The consideration represents (a) a premium of approximately 28.38% over the market value of the Sale Shares based on the closing price of shares of EC-Founder as at the date of this announcement; (b) a premium of approximately 45.96% over 21.85% of the audited net asset value of the EC-Founder Group as at 31 December 2005; and (c) a price to earnings ratio of approximately 11.9 times based on the audited net profit of the EC-Founder Group for the year ended 31 December 2005. After having considered the above and other factors, including the price to earnings ratio of certain comparable companies in similar industry with EC-Founder, the historic trading performance of the shares of EC-Founder and future prospects of the distribution of information products industry in the PRC, Founder considers that the terms (including the consideration) of the Share Transfer are fair and reasonable.

Condition precedent

Completion of the Agreement is subject to the passing of the resolution at the SGM approving the Agreement and the transactions contemplated thereunder.

If the condition precedent is not satisfied on or before 31 July 2006 (or some other date as may be agreed between the parties to the Agreement), the Agreement (including all rights and obligations of the parties to the Agreement (save for the refund of deposit as mentioned above)) shall then be terminated.

Completion

Completion shall take place on the second business day after fulfillment of the condition precedent (or any other date as may be agreed between the parties to the Agreement).

INFORMATION ON FOUNDER AND EC-FOUNDER

The Founder Group is principally engaged in software development and systems integration relating to the media industry and certain other industries. EC-Founder is an approximately 54.85% owned subsidiary of Founder. The EC-Founder Group is principally engaged in the distribution of information products in the PRC.

The audited consolidated net asset value of EC-Founder as at 31 December 2005 was approximately HK\$214.8 million. The audited consolidated net profit before and after taxation and extraordinary items and minority interests were approximately HK\$28.4 million and HK\$26.6 million respectively for the year ended 31 December 2005 and approximately HK\$10.4 million and HK\$9.2 million respectively for the year ended 31 December 2004.

After the Share Transfer, EC-Founder will cease to be a subsidiary of Founder which shareholding interest in EC-Founder will decrease to approximately 33%. EC-Founder will become an associated company of Founder following the Share Transfer and the assets, liabilities, results and cashflow of the EC-Founder Group will no longer be consolidated in the consolidated financial statements of Founder.

REASONS FOR AND BENEFITS OF THE SHARE TRANSFER

As mentioned above, Founder has agreed to procure Mr Zheng Fu Shuang be nominated and appointed as an executive director of EC-Founder. Mr Zheng, aged 40, is the Chairman of 新奧特硅谷視頻技術有限責任公司 (Newauto Silicon Valley Video Technology Co., Ltd.*) and 浙江新奧特數字技術股份有限公司 (Zhejiang Newauto Digital Video Co., Ltd.*), both of which are principally engaged in the production, selling and research

and development of digital video transmission products. Mr Zheng graduated from the Institute of Electronics, Chinese Academy of Sciences with a master's degree in Engineering, and Peking University Guanghua School of Management with an executive master's degree in Business Administration. Mr Zheng has over 15 years' experience in the technology industry in the PRC. Mr Zheng was awarded the "Best Technological Entrepreneur of Private Enterprise in China" (中國優秀民營科技企業家) and the "Gold Medal of Beijing Outstanding Young Entrepreneurs Contest" (北京市優秀青年企業家金獎) in 2004.

By transferring the Sale Shares to the Purchaser, Founder believes that having the Purchaser as a strategic shareholder of EC-Founder and Mr Zheng as a director of EC-Founder will help the EC-Founder Group strengthen its management expertise and assist the EC-Founder Group to further improve its business prospects. Founder believes that this will benefit Founder, which will continue to be the controlling shareholder of EC-Founder.

The Share Transfer is a cash transaction. The net proceeds of approximately HK\$67.8 million generated from the Share Transfer will provide the Founder Group with additional cash which could be used as working capital of the Founder Group. The Directors believe that the enhancement of the working capital position of the Founder Group will benefit the future development of its businesses. If appropriate opportunity arises, the Founder Group may also use some of the net proceeds to develop other business areas with a view to achieving good return to the Shareholders.

It is estimated that there would be an accounting gain on disposal of the Sale Shares of approximately HK\$18.8 million based on the consolidated net asset value of the EC-Founder Group as at 31 December 2005. Having considered the terms of the Share Transfer and the above reasons and benefits, the Board considers that the Share Transfer is in the interests of Founder and the Shareholders as a whole.

GENERAL

The Share Transfer constitutes a major transaction for Founder pursuant to Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements. No Shareholders are required to abstain from voting at the SGM in respect of the resolution to approve the Share Transfer. Founder will despatch to the Shareholders a circular containing, among other things, details of the Share Transfer and a notice convening the SGM as soon as practicable.

The Board comprises Mr Cheung Shuen Lung (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Professor Wei Xin, Mr Zhang Zhao Dong and Mr Xia Yang Jun (each of whom an executive director), Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee (each of whom an independent non-executive director).

DEFINITIONS

"Agreement"	the agreement dated 26 May 2006 entered into between Founder and the Purchaser in relation to the Share Transfer
"Board"	the board of Directors
"Directors"	the directors of Founder
"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, and an approximately 54.85% owned subsidiary of Founder
"EC-Founder Group"	EC-Founder and its subsidiaries
"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 Group"	Founder and its subsidiaries, excluding members of the EC-Founder Group unless otherwise specified
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this announcement
"Purchaser"	Shining Wisdom Group Limited, a company incorporated in the British Virgin Islands
"Sale Shares"	240,425,000 shares of EC-Founder of HK\$0.10 each held by Founder
"SGM"	the special general meeting of Founder to be held to approve the Agreement and the transactions contemplated thereunder
"Shareholder(s)"	holder(s) of the ordinary share(s) of HK\$0.10 each in the capital of Founder
"Share Transfer"	the transfer of the Sale Shares to the Purchaser
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 26 May 2006

* for identification purpose only

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