
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Management Investment & Technology (Holdings) Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of Management Investment & Technology (Holdings) Limited.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



MANAGEMENT INVESTMENT & TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

**MAJOR AND CONNECTED TRANSACTIONS,
WAIVER FROM THE OBLIGATION ARISING UNDER
THE TAKEOVERS CODE
TO MAKE A MANDATORY GENERAL OFFER,
PLACING OF NEW SHARES, SUBSCRIPTION OF NEW SHARES,
INCREASE IN AUTHORISED SHARE CAPITAL,
CONSENT UNDER THE TAKEOVERS CODE FOR DISPOSAL OF ASSETS
AND
GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES**

**Independent financial adviser to the Independent Board Committee of
Management Investment & Technology (Holdings) Limited**



ASIA FINANCIAL CAPITAL LIMITED

Financial adviser to Founder Holdings Limited



BOCI ASIA LIMITED

A letter from the Board is set out on pages 15 to 43 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Transactions is set out on pages 53 to 54 of this circular. A letter from Asia Financial, the independent financial adviser, containing its advice to the Independent Board Committee is set out on pages 55 to 107 of this circular.

A notice convening a special general meeting of Management Investment & Technology (Holdings) Limited to be held at K-2 Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on Monday, 25th September, 2000 is set out on pages 178 to 188 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

9th September, 2000

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The Company has not authorised anyone to provide you with information that is different from what is contained in this circular.

Any information or representation not contained in this circular must not be relied on by you as having been authorised by the Company, Founder, BOCI Asia, Asia Financial, the directors of any of them, or any other person involved in the Sale and Purchase Agreement, the Disposal Agreement, the Management Agreement, the Escrow Agreement, the Equity Transfer Agreement, the Placing Agreements and the Subscription Agreements.

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DEFINITIONS

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

“Acquisition”	the acquisition of the entire issued share capital of Founder Data by the Company from the Vendors pursuant to the Sale and Purchase Agreement
“AdTargeting”	Beijing AdTargeting Inc., a wholly foreign owned enterprise established in the PRC whose registered capital is beneficially owned as to 19.9% by Yahoo! (through Datacom) and as to 80.1% by Founder Data
“Advertising Sales Representative Agreement”	the agreement dated 29th June, 2000, entered into between Yahoo! Holdings (Hong Kong) Limited (a wholly-owned subsidiary of Yahoo!), Founder Electronics and AdTargeting, under which AdTargeting has been appointed the on-line advertising agent of the website of yahoo.com.cn for a term of twelve years from 1st March, 2000 to 28th February, 2012
“Announcement”	the joint announcement dated 24th May, 2000 issued by the Company and Founder in relation to the Transactions
“Asia Financial”	Asia Financial Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee
“associates”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of directors of MIT
“BOCI Asia”	BOCI Asia Limited, a registered dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to Founder
“Completion”	completion of the Acquisition, the Disposal, the Equity Transfer, the Placing and the Subscriptions
“concert parties”	has the meaning ascribed to it under the Takeovers Code
“Conditions”	the conditions which must be satisfied (or waived) before Completion as set out under the heading “Conditions of the Sale and Purchase Agreement” in the section headed “THE SALE AND PURCHASE AGREEMENT” in the “LETTER FROM THE BOARD”

DEFINITIONS

“Consideration Shares”	439,560,000 new Shares to be issued to the Vendors in satisfaction of the consideration for the Acquisition
“Datacom”	Datacom Developments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Yahoo! which directly owns a 19.9% interest in AdTargeting
“Deposited Shares”	the 72,000,000 Shares to be deposited by Ricwinco under the Escrow Agreement
“Disposal”	the disposal of the entire issued share capital of MITI and the assignment of the interest in the indebtedness due to the Company by the MITI Group as at completion of the Disposal Agreement from the Company to Ricwinco
“Disposal Agreement”	the agreement dated 17th May, 2000 entered into between the Company and Ricwinco for the Disposal
“E-Town”	Founder E-Town Limited, a company owned as to 60% by Founder Data and 40% by Panoramic View Group Limited in which Mr. Huang Zhuoqin, Ms. Lau Wing Shu, Mr. Tam Kin Wing, Mr. Li Chi Kong, Mr. Cheung Chung Chi, Ms. Chu Tung Shan and Ms. Chu Nien Tzu beneficially owned (independent third parties not connected with MIT or Founder or the directors, chief executives or substantial shareholders of MIT or Founder or any of their respective subsidiaries or any of their respective associates)
“EC-Media”	Founder EC-Media Limited, a wholly-owned subsidiary of Founder Data
“EC-Tech”	Founder EC-Tech Limited, a wholly-owned subsidiary of Founder Data
“Enlarged Group”	the Company and its subsidiaries immediately following Completion, including the Yung Wen Group, the MITC Group, the Founder Data Group and Datacom but excluding the MITI Group
“Enlarged Issued Share Capital”	the issued ordinary share capital of the Company immediately following Completion as enlarged by the issue of the Consideration Shares, the Equity Transfer Shares, the Subscription Shares and the Placing Shares

DEFINITIONS

“Equity Transfer”	the transfer of a 19.9% interest in AdTargeting to be effected by the sale of its 100% interest in Datacom by Yahoo! to the Company pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	the agreement dated 17th May, 2000 entered into between Yahoo!, the Company and Founder Electronics pursuant to which Yahoo! will sell to the Company all the issued shares in Datacom and any and all outstanding shareholder loans owed by Datacom as at completion of such agreement and the Company will issue the Equity Transfer Shares to Yahoo! in satisfaction of the consideration for the purchase
“Equity Transfer Shares”	93,240,000 new Shares to be issued at HK\$1.00 per Share to Yahoo! in satisfaction of the consideration for the Equity Transfer Agreement
“Escrow Agent”	BOCI-Prudential Trustee Limited, the escrow agent appointed by Ricwinco and the Company which will hold the Deposited Shares in escrow in accordance with the Escrow Agreement
“Escrow Agreement”	the escrow agreement dated 17th May, 2000 entered into between Ricwinco, the Company and the Escrow Agent
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or his delegates
“F2 Consultant”	F2 Consultant Limited, a company incorporated in the British Virgin Islands holding a registered 14.76% shareholding in Founder Data as nominee on behalf of the directors of Founder Data acting in their capacity as the trustees of a discretionary trust for employees of the Founder Data Group
“Founder”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange, whose controlling shareholders are independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates

DEFINITIONS

“Founder Data”	Founder Data Corporation International Limited, a company incorporated in the British Virgin Islands and a 70% owned subsidiary of Founder Electronics, in which F2 Consultant has a 14.76% registered shareholding with the Other Founder Data Shareholders collectively holding the remaining interest
“Founder Data Group”	the group of companies which consists of Founder Data and its subsidiaries namely an 80.1% interest in AdTargeting, a 100% interest in EC-Media, a 100% interest in EC-Tech and a 60% interest in E-Town, a 40% interest in Founder iASPEC, and a 40% interest in MC.Founder
“Founder Electronics”	Founder Electronics (HK) Limited, a company incorporated in Hong Kong which is a 70% shareholder of Founder Data and a wholly-owned subsidiary of Founder
“Founder Group”	Founder and its subsidiaries and associated companies
“Founder iASPEC”	Founder iASPEC Limited, a joint venture company owned as to 40% by Founder Data, as to 51% by Iaspec Investments (BVI) Limited (an independent third party not connected with MIT or Founder or the directors, chief executives or substantial shareholders of MIT or Founder or any of their respective subsidiaries or any of their respective associates) and as to 9% by F2 Consultant acting as nominee on behalf of the trustees of “The Founder iASPEC Employees Benevolent Trust” (a discretionary trust for employees of the joint venture company)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee of the Company comprising Mr. Richard Lin Yang and Mr. Andrew Ying Biu Lee, who have been appointed to advise the independent Shareholders in relation to, inter alia, the terms of the Sale and Purchase Agreement, the Subscription Agreements, the Equity Transfer Agreement, the Disposal Agreement, the Management Agreement and the Whitewash Waiver
“Latest Practicable Date”	4th September, 2000, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Management Agreement”	the agreement dated 17th May, 2000 entered into between the Company and Ricwinco for the management of the Yung Wen Group and the MITC Group and for the Possible Disposal
“Management Arrangement”	the management arrangement entered into between the Company and Ricwinco under the Management Agreement
“MC.Founder”	MC.Founder Limited, a joint venture company owned as to 40% by Founder Data and as to 60% by Full Benefit Technology Limited which is beneficially owned by Mr. Yung Kwok Wai and Mr. Lau Ka Fai Joseph (independent third parties not connected with MIT or Founder or the directors, chief executives or substantial shareholders of MIT or Founder or any of their respective subsidiaries or any of their respective associates)
“MIT” or the “Company”	Management Investment & Technology (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“MIT Group”	MIT and its subsidiaries (excluding the Yung Wen Group and the MITI Group) before the Transaction Completion Date
“MITC”	Management Investment & Technology Company Limited (or MIT Holdings Limited, a company incorporated to hold the entire issued ordinary share capital in Management Investment & Technology Company Limited), a wholly-owned subsidiary of the Company engaged in the design, manufacturing and marketing of weighing scales
“MITC Group”	all of those companies which are subsidiaries of MIT except (i) the MITI Group and (ii) the Yung Wen Group before the Transaction Completion Date
“MITC Opening Net Worth”	audited consolidated net asset value of the MITC Group as at the Transaction Completion Date
“MITI”	Management Investment & Technology International Inc., a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of MIT
“MITI Group”	MITI, its subsidiaries and associated companies as at the Transaction Completion Date

DEFINITIONS

“Mr. Cheung”	Mr. Cheung Shuen Lung, a director of Founder
“Mr. Yung”	Mr. Richard Chih Shin Yung, a director and an indirect controlling shareholder of MIT
“Other Founder Data Shareholders”	Mr. Cheung, Zhang Zhao Dong (a director of Founder), Wei Xin (a director of Founder), Lei Hon Sang (a director of Founder), Xiao Jian Guo and Jiang Bi Jin who respectively hold 4.98%, 0.9%, 0.9%, 4.98%, 1.98% and 1.5% in Founder Data, all of whom are independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Outstanding Consideration Payments”	the payments to be made in respect of the outstanding consideration payable by Ricwinco to the Company pursuant to the Disposal Agreement
“Peking Founder”	Peking University Founder Group Corporation
“Placing”	the placing of 75,560,000 Shares in aggregate at a price of HK\$1.00 per Share pursuant to the Placing Agreements
“Placing Agreements”	six agreements dated 17th May, 2000 for the Placing entered into between MIT, BOCI Asia and the respective placees under the Placing
“Placing Shares”	75,560,000 new Shares in aggregate to be issued at HK\$1.00 per Share pursuant to the Placing Agreements
“Possible Disposal”	the possible sale by the Company to Ricwinco of its interest in the entire issued share capital of Yung Wen and its interest in the indebtedness owed to the Company by the Yung Wen Group pursuant to the Management Agreement
“PRC” or “China”	the People’s Republic of China
“Ricwinco”	Ricwinco Investment Limited (a company incorporated in Hong Kong), the controlling shareholder of the Company (currently holding approximately 54% interest) and beneficially wholly-owned by Mr. Yung

DEFINITIONS

“Sale and Purchase Agreement”	the conditional sale and purchase agreement entered into between Founder Electronics, F2 Consultant, the Other Founder Data Shareholders, the Company and Founder dated 17th May, 2000 relating to the Acquisition
“Sallmanns”	Sallmanns (Far East) Limited
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	the Securities and Futures Commission of Hong Kong
“SGM” or “Special General Meeting”	the special general meeting of the Company convened to be held on 25th September, 2000, notice of which is set out on pages 178 to 188 of this circular, including any adjournment thereof
“Share(s)”	share(s) of HK\$0.10 each in the share capital of MIT
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	two agreements dated 17th May, 2000 for the Subscriptions entered into by the Company and BOCI Asia with Founder and Mr. Cheung respectively
“Subscription Shares”	31,000,000 new Shares in aggregate to be issued at HK\$1.00 per Share pursuant to the Subscription Agreements
“Subscriptions”	the subscription of an aggregate of 31,000,000 new Shares by Founder and Mr. Cheung at HK\$1.00 per Share pursuant to the Subscription Agreements
“Sunevision”	Sunevision Holdings Limited, a company incorporated in the Cayman Islands and listed on the Growth Enterprise Market of the Stock Exchange
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Transaction Completion Date”	the date on which the Acquisition, the Disposal, the Equity Transfer, the Placing and the Subscriptions will be completed pursuant to the terms of the Sale and Purchase Agreement, the Disposal Agreement, the Equity Transfer Agreement, the Placing Agreements and the Subscription Agreements, respectively
“Transactions”	the transactions contemplated under the Sale and Purchase Agreement, the Subscription Agreements, the Disposal Agreement, the Management Agreement, the Escrow Agreement, the Equity Transfer Agreement and the Placing Agreements, respectively
“US\$”	United States dollars
“Vendors”	Founder Electronics, F2 Consultant and the Other Founder Data Shareholders
“Whitewash Waiver”	a waiver from the general offer obligation under the Takeovers Code pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code
“Yahoo!”	Yahoo! Inc., a United States corporation incorporated in the State of Delaware whose shares are listed on NASDAQ and an independent third party of MIT
“Yung Wen”	Yung Wen Investment & Finance Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of MIT
“Yung Wen Group”	Yung Wen and its subsidiaries and associated companies as at completion of the Possible Disposal
“Yung Wen Opening Net Worth”	audited consolidated net asset value of the Yung Wen Group as at the Transaction Completion Date

Unless otherwise specified in this circular, amounts denominated in US\$ have been translated, for the purpose of illustration only, into HK\$ at a rate of HK\$7.80 = US\$1.00.

No representation is made that any amount in US\$ or HK\$ could have been or could be converted at the above rate or any other rates or at all.

EXPECTED TIMETABLE

Latest time for lodging the form of proxy

for the Special General Meeting 10:00 a.m. on Saturday, 23rd September, 2000

Special General Meeting 10:00 a.m. on Monday, 25th September, 2000

Announcement of results of the Special General Meeting

to appear in newspapers on 26th September, 2000

Expected date of completion of the Acquisition,

the Disposal, the Equity Transfer, the Placing

and the Subscriptions (*Note*) on or before 30th September, 2000

Note: Completion is conditional upon the fulfilment of various conditions, as detailed in the “LETTER FROM THE BOARD” below.

DIRECTORS INVOLVED IN THE TRANSACTIONS

The following are the proposed directors of the Company immediately following the completion of the Transactions.

The Board would like to point out that if the Transactions do not proceed to completion, the composition of the Board will not change and the proposed new directors will not be nominated to the Board.

Name	Address	Nationality
<i>Executive directors</i>		
† Mr. Cheung Shuen Lung	Block F, Golden Villa 6 Castle Peak Road Sham Tseng New Territories Hong Kong	American
† Mr. Lei Hon Sang	No. 61, Greenland Garden Chaoyang District Beijing PRC	Macau
† Professor Wei Xin	Room 506, Block 3 Jing Shu Yuan Xiao Qu Peking University Haidian District Beijing PRC	Chinese
† Professor Zou Wei	Room 109, Building 310 Yan Bei Yuan Peking University Haidian District Beijing PRC	Chinese
* Mr. Richard Yung, Jr.	H-1, Repulse Bay Towers 119A Repulse Bay Road Hong Kong	Chinese

DIRECTORS INVOLVED IN THE TRANSACTIONS

Non-executive directors

* Mr. Richard Chih Shin Yung H-1, Repulse Bay Towers Chinese
119A Repulse Bay Road
Hong Kong

† Professor Wang Xuan Room 206, Block 101 Chinese
Cheng Ze Yuan
Peking University
Haidian District
Beijing
PRC

Independent non-executive directors

* Mr. Richard Lin Yang 341 Tun Hwa North Road Chinese
12th Floor, Taipei, Taiwan
Republic of China

* Mr. Andrew Ying Biu Lee Flat 10A, Kadoorie Avenue Mansion Chinese
205-207 Prince Edward Road West
Kowloon
Hong Kong

** Existing directors*

† New directors to be nominated and appointed to the Board upon the completion of the Transactions.

PARTIES INVOLVED

Independent financial adviser to the Independent Board Committee	Asia Financial Capital Limited 12th Floor, Asia Financial Centre 120 Des Voeux Road Central Hong Kong
Financial adviser to Founder	BOCI Asia Limited 35th Floor, Bank of China Tower 1 Garden Road Hong Kong
Legal advisers to the Company	<i>as to Hong Kong law</i> Woo, Kwan, Lee & Lo 27th Floor, Jardine House 1 Connaught Place Central Hong Kong <i>as to Bermuda law</i> Appleby Spurling & Kempe 5511 The Center 99 Queen's Road Central Hong Kong
Legal advisers to Founder	<i>as to Hong Kong law</i> Chao and Chung 26th Floor, Asia Pacific Finance Tower Citibank Plaza 3 Garden Road Hong Kong <i>as to PRC law</i> Commerce & Finance Law Offices 714, Huapu International Plaza 19 Wai Chao Avenue Beijing 10020 PRC

PARTIES INVOLVED

**Reporting accountants and
auditors for the Company**

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

**Reporting accountants for
Founder Data**

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Auditors for Founder Data

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Business valuer

Sallmanns (Far East) Limited
15th Floor, Trinity House
165-171 Wanchai Road
Wanchai
Hong Kong

CORPORATE INFORMATION

**Registered office of the Company
in Bermuda**

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

**Head office and principal place of
business of the Company**

7th Floor, Tin Fung Industrial Mansion
63 Wong Chuk Hang Road
Aberdeen
Hong Kong

Company secretary of the Company

Ms. Yvonne Yuk Bo Tang

**Share registrars and
transfer office of the Company
in Bermuda**

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Hamilton
Bermuda

**Branch share registrars and
transfer office of the Company
in Hong Kong**

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong



MANAGEMENT INVESTMENT & TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Executive directors:

Mr. Richard Chih Shin Yung (*Chairman*)
Mr. Richard Yung, Jr.
Mr. King Shing Lee

Non-executive directors:

Dr. James Sai Wing Wong
Mr. James Sing Wai Wong

Independent non-executive directors:

Mr. Richard Lin Yang
Mr. Andrew Ying Biu Lee

Head office and principal

place of business:
7th Floor, Tin Fung Industrial Mansion
63 Wong Chuk Hang Road
Aberdeen
Hong Kong

Registered office:

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

9th September, 2000

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS,
WAIVER FROM THE OBLIGATION ARISING UNDER
THE TAKEOVERS CODE
TO MAKE A MANDATORY GENERAL OFFER,
PLACING OF NEW SHARES, SUBSCRIPTION OF NEW SHARES,
INCREASE IN AUTHORISED SHARE CAPITAL,
CONSENT UNDER THE TAKEOVERS CODE FOR DISPOSAL OF ASSETS
AND
GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES**

1. INTRODUCTION

On 24th May, 2000, the Board announced that the Company had entered into the Sale and Purchase Agreement, the Disposal Agreement, the Subscription Agreements, the Management Agreement, the Equity Transfer Agreement, the Escrow Agreement and the Placing Agreements.

LETTER FROM THE BOARD

Pursuant to the Sale and Purchase Agreement, the Company will purchase the entire issued share capital of Founder Data from the Vendors at a consideration of HK\$439,560,000 which will be satisfied by issuing a total of 439,560,000 Consideration Shares at HK\$1.00 each (credited as fully paid) to the respective Vendors approximately in proportion to their respective shareholdings in Founder Data before Completion. The Acquisition constitutes a major and connected transaction for the Company under the Listing Rules and requires approval from independent Shareholders. Ricwinco and its associates will abstain from voting on the resolution approving the Sale and Purchase Agreement.

The Company has also entered into the Subscription Agreements with Founder and Mr. Cheung respectively. Pursuant to the Subscription Agreements, Founder and Mr. Cheung will subscribe for 16,000,000 Subscription Shares and 15,000,000 Subscription Shares respectively at HK\$1.00 each payable in cash. The Subscription Agreements constitute connected transactions for the Company and require Shareholders' approval. No Shareholder is required to abstain from voting on the resolutions approving the Subscription Agreements. However, as mentioned below, Ricwinco and its concert parties will abstain from voting on the resolution approving the Whitewash Waiver waiving the general offer obligation triggered by the completion of the Subscriptions.

Since the allotment of the Consideration Shares to the Vendors under the Acquisition and the allotment of the Subscription Shares to Founder and Mr. Cheung under the Subscriptions will trigger the obligation of Founder and parties acting in concert with it under the Takeovers Code to extend a mandatory general offer for all the Shares other than those already owned or agreed to be acquired by them, Founder has applied to the Executive for a Whitewash Waiver from such obligation to make a mandatory general offer. The grant of such a waiver is conditional on approval of independent Shareholders by an ordinary resolution taken on a poll. Ricwinco and its associates and parties acting in concert with them will abstain from voting on the resolution approving the Whitewash Waiver.

The Company has also entered into the Disposal Agreement with Ricwinco, the existing controlling shareholder of the Company. In accordance with the terms of the Disposal Agreement, the Company will dispose of the entire issued share capital of MITI and its interest in the indebtedness due to the Company by the MITI Group outstanding as at the completion of the Disposal Agreement to Ricwinco. The total consideration for the Disposal shall be the sum of the audited net asset value of the MITI Group and the total amount of the debt due from the MITI Group to the Company as at the Transaction Completion Date.

The Company has also entered into the Management Agreement with Ricwinco pursuant to which Ricwinco will be appointed as manager to manage the Yung Wen Group and the MITC Group for a period of 3 years from the Transaction Completion Date. Ricwinco has also provided a profit guarantee in respect of the annual return of the businesses of the Yung Wen Group and the MITC Group. Pursuant to the terms of the Management Agreement, Ricwinco conditionally agreed to purchase the entire issued share capital of Yung Wen and the interest in the indebtedness due to the Company by the Yung Wen Group outstanding as at completion of such sale and purchase in the event that, amongst others, the Yung Wen Group fails to attain a certain profit level.

The transactions contemplated under the Disposal Agreement and the Management Agreement including the Possible Disposal in aggregate constitute a major and connected transaction under the Listing Rules and also respectively constitute a "Special Deal" under Rule 25 of the Takeovers Code which would require approval

LETTER FROM THE BOARD

from independent Shareholders taken on a poll. Ricwinco and its associates and parties acting in concert with any of them will abstain from voting on the resolutions approving the Disposal Agreement and the Management Agreement (including the Possible Disposal).

The Company has also entered into the Escrow Agreement with Ricwinco pursuant to which Ricwinco will deposit 72,000,000 Deposited Shares with the Escrow Agent to secure its payment obligations under the Disposal Agreement and the Management Agreement including the profit guarantee arrangement and the Possible Disposal.

Furthermore, the Company has also entered into the Equity Transfer Agreement pursuant to which the Company will acquire from Yahoo! its 100% interest in Datacom which holds 19.9% interest in AdTargeting (with the Founder Data Group holding the remaining 80.1% interest). Following Completion, the Company will hold 100% interest in AdTargeting. The transaction contemplated under the Equity Transfer Agreement constitutes a major and connected transaction under the Listing Rules and requires Shareholders' approval. No Shareholders will be required to abstain from voting on the resolution approving the Equity Transfer Agreement.

The Company has also entered into the Placing Agreements with six independent placees pursuant to which the Company conditionally agreed to place a total of 75,560,000 Placing Shares to such placees at HK\$1.00 each payable in cash.

Upon completion of all the above transactions (and assuming that no other Shares are issued), the shareholding structure of the Company will be as follows:

	Before the Acquisition		After the Acquisition, the Subscriptions, the Equity Transfer and the Placing	
	<i>Number of Shares (million)</i>	%	<i>Number of Shares (million)</i>	%
Founder	–	–	323.7	39.45
Yahoo!	–	–	93.2	11.35
Other Founder				
Data Shareholders	–	–	82.0	9.99
F2 Consultant	–	–	64.9	*7.91
Ricwinco	97.7	53.91	97.7	11.91
Chinney Alliance				
Group Limited	35.5	19.60	35.5	*4.33
Placees under the Placing	–	–	75.6	*9.21
Other public Shareholders	48.0	26.49	48.0	*5.85
	<u>181.2</u>	<u>100</u>	<u>820.6</u>	<u>100</u>

* Public shareholding (total: 27.3%)

LETTER FROM THE BOARD

2. THE SALE AND PURCHASE AGREEMENT

Date

17th May, 2000

Parties

- (i) Vendors : Founder Electronics, F2 Consultant and the Other Founder Data Shareholders
- (ii) Purchaser : the Company
- (iii) Founder (which joined as a party to provide undertakings to the Company (a) as to the carrying on of certain software and internet business after the Transaction Completion Date (as further described below) and (b) to procure that Founder Electronics complies with its obligations under the Sale and Purchase Agreement)

The Acquisition

The entire issued share capital of Founder Data will be acquired by the Company from the Vendors.

Consideration

The consideration payable by the Company pursuant to the Acquisition amounts to HK\$439,560,000 which was determined on the basis of arm's length negotiations with reference to the future prospects and the potential of the businesses of the Founder Data Group. The consideration is to be satisfied by the issue by the Company of the 439,560,000 Consideration Shares at HK\$1.00 each to the Vendors or their respective nominees. A valuation on the Founder Data Group performed by Sallmanns is set out in Appendix II of the circular.

As per the valuation of Sallmanns, the businesses and assets of the Founder Data Group contemplated under the Sale and Purchase Agreement have been independently valued at US\$62 million (approximately HK\$483.6 million) which is at a premium of approximately 10.02% to the consideration.

Consideration Shares

The Consideration Shares, when issued, will rank pari passu in all respects with the Shares then in issue including the right to receive any dividends declared, made or paid on and after Completion. The Consideration Shares represent (i) about 242.58% of the existing issued share capital of the Company; (ii) about 61.56% of the issued share capital of the Company as enlarged by the issuance of the Consideration Shares and the Equity Transfer Shares but before the proposed Placing and the Subscriptions; and (iii) about 53.57% of the Enlarged Issued Share Capital.

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The issue price of HK\$1.00 per Consideration Share (to be credited as fully paid) represents (i) a discount of about 28.6% to the closing price of HK\$1.40 per Share as quoted on the Stock Exchange as at 4th May, 2000, being the last trading day prior to the date of the Announcement; (ii) a discount of about 0.6% to the average closing price of HK\$1.006 per Share as quoted on the Stock Exchange from 18th April, 2000 to 4th May, 2000, being the last ten trading days prior to the date of the Announcement; (iii) a premium of about 5.4% to the audited consolidated net asset value of the Company as at 31st December, 1998 of approximately HK\$0.949 per Share; and (iv) a discount of about 4.9% to the audited consolidated net asset value of the Company as at 31st December, 1999 of approximately HK\$1.051 per Share.

Conditions of the Sale and Purchase Agreement

Completion of the Sale and Purchase Agreement is conditional upon:

- (i) if dealings in the Shares are required to be suspended following the execution of the Sale and Purchase Agreement, the Company obtaining written confirmation from the Stock Exchange that the application for a lifting of such suspension will not be treated by the Stock Exchange as if it were an application for listing from a new applicant;
- (ii) completion of the formation of the corporate structure of the Founder Data Group as contemplated under the Sale and Purchase Agreement;
- (iii) completion to the satisfaction of the Company of its due diligence review of the corporate status, the business and the financial conditions of the Founder Data Group;
- (iv) completion to the satisfaction of the Vendors of their due diligence review of the corporate status, the business and the financial conditions of the MIT Group;
- (v) approval by the shareholders of Founder of the sale by Founder Electronics of its shareholding in Founder Data to the Company in consideration of an issue of 307,690,000 Consideration Shares (being part of the total of 439,560,000 Consideration Shares, and being approximately proportionate to the percentage shareholding of Founder Electronics in Founder Data) contemplated under the Sale and Purchase Agreement at a duly convened and held general meeting of Founder;
- (vi) passing of an ordinary resolution by the Shareholders of the Company approving the increase in the authorised share capital of the Company from HK\$50,000,000 to HK\$300,000,000;
- (vii) approval by the independent Shareholders of the Company of (a) the acquisition by the Company of Founder Data; (b) allotment of the Consideration Shares to the Vendors (or as each of them may direct) in such numbers approximately proportionate to their respective shareholdings in Founder Data; and (c) all other transactions contemplated under the Sale and Purchase Agreement at a duly convened and held general meeting of the Company;

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- (viii) approval by the independent Shareholders of the Company of the transactions contemplated under the Disposal Agreement and the Management Agreement at a duly convened and held general meeting of the Company;
- (ix) the passing of an ordinary resolution taken on a poll by those Shareholders of the Company who are not interested in the Sale and Purchase Agreement by an independent vote (within the meaning of Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code or as may be required by the Executive) approving a waiver of the obligation on Founder Electronics, F2 Consultant and the Other Founder Data Shareholders or any of them and parties acting in concert with them to make a mandatory offer for all the Shares under Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares to the Vendors, and the Executive granting such a waiver;
- (x) the Executive having given his consent to the disposal by the Company to Ricwinco of shares in MITI and indebtedness due from the MITI Group pursuant to the Disposal Agreement and (upon satisfaction of certain conditions) of shares in Yung Wen pursuant to the Management Agreement under Rule 25 of the Takeovers Code and the passing of an ordinary resolution taken on a poll by those Shareholders of the Company who are not involved in or interested in the transactions, approving the said disposals as required under Note 4 to Rule 25 of the Takeovers Code;
- (xi) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
- (xii) (where required) the Bermuda Monetary Authority granting its permission to the issue and allotment of the Consideration Shares;
- (xiii) all the warranties given by the Vendors in the Sale and Purchase Agreement being true and correct in all material respects as at the date of Completion by reference to the facts and circumstances subsisting as at that date;
- (xiv) all the warranties given by the Company in the Sale and Purchase Agreement being true and correct in all material respects as at the date of Completion by reference to the facts and circumstances subsisting as at that date, including the warranty by the Company that its consolidated net asset value (a) as at 31st December, 1999 as shown in the financial statements of the Company for the year ended 31st December, 1999 shall have been audited and include an unqualified auditors' report thereon, and (b) as at the date of Completion shall not be materially less than HK\$185 million; and
- (xv) the completion of the Disposal Agreement taking place contemporaneously with the completion of the Sale and Purchase Agreement.

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The Vendors may waive condition (ix) and the Company may waive condition (ii), although the Company does not presently have any intention to waive condition (ii). The allotment of the Consideration Shares to the Vendors without fulfilment of condition (ix) would trigger an obligation of the Vendors to extend a general offer for all the Shares other than those already owned or agreed to be acquired by the Vendors or parties acting in concert with any of them. In this connection, the Vendors have undertaken to BOCI Asia that they will not waive condition (ix) unless BOCI Asia is satisfied that the Vendors have sufficient financial resources to satisfy full acceptance of the general offer.

The net asset value of the Group as at 31st December, 1999 amounted to approximately HK\$186.6 million.

In the event that any of the Conditions has not been fulfilled (or waived by the parties thereto) by 30th September, 2000 (or such other date as the parties to the Sale and Purchase Agreement may agree in writing), the Sale and Purchase Agreement shall lapse and terminate and thereafter all rights, obligations and liabilities of all parties hereunder shall cease and determine and no party shall have any claim against the others under the Sale and Purchase Agreement except for any antecedent breach.

Undertakings

Pursuant to the Sale and Purchase Agreement, (i) subject to Completion, Founder has undertaken to the Company that it will not (and none of its present or future subsidiaries or associated companies will) except through the Enlarged Group (except the Yung Wen Group) directly or indirectly undertake, engage in or be otherwise interested in any business including or relating to the design and production of non-media e-commerce software and non-media utility software or the operation of portals and websites on the internet in the PRC; and (ii) subject to the Conditions being fulfilled or waived, Founder has undertaken to procure that Founder Electronics complies with all its obligations under the Sale and Purchase Agreement.

Each of the Vendors, except F2 Consultant, has undertaken to the Company that it or he will not, save with the prior written consent of the Company, transfer, exchange or otherwise dispose of, or grant or create any encumbrance in respect of, any of the Consideration Shares issued to it or him prior to the date falling six months after the Transaction Completion Date.

General

The Vendors are Founder Electronics, F2 Consultant and the Other Founder Data Shareholders. Founder Electronics, which holds a 70% shareholding in Founder Data, is a wholly-owned subsidiary of Founder. F2 Consultant holds a 14.76% shareholding in Founder Data and the Other Founder Data Shareholders together hold a 15.24% shareholding. Each of Founder, Founder Electronics and F2 Consultant and their respective associates are independent of and (save for their shareholdings in Founder Data in the case of Founder Electronics and F2 Consultant) not connected with any directors, chief executives or substantial shareholders of the Company or any of its respective subsidiaries or any of their respective associates. The Other Founder Data Shareholders include Mr. Cheung, Zhang Zhao Dong, Lei Hon Sang and Wei Xin, who hold 4.98%, 0.9%, 4.98% and 0.9%

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shareholdings respectively in Founder Data and are directors of Founder. The remaining Other Founder Data Shareholders together hold an aggregate of 3.48% shareholding in Founder Data. All of the Other Founder Data Shareholders and their respective associates are independent of and not connected with any directors, chief executives or substantial shareholders of the Company or any of its respective subsidiaries or any of their respective associates. For the period between the date of the Sale and Purchase Agreement and the Latest Practicable Date, none of the Vendors or their respective associates held any Shares in the Company.

The Sale and Purchase Agreement constitutes a major and connected transaction under Rule 14.23(1)(b) of the Listing Rules for the Company and is conditional on approval by the independent Shareholders of the Company. Ricwinco and its associates and parties acting in concert with them will abstain from voting on the resolutions for the approval of this transaction under conditions (vii), (viii) and (ix) as stated above.

Application for listing

Application has been made by the Company to the Stock Exchange for listing of and permission to deal in the Consideration Shares.

3. THE SUBSCRIPTION AGREEMENTS

Date

17th May, 2000

The Subscriptions

Under the Subscription Agreements, Founder and Mr. Cheung will subscribe, for cash, 16,000,000 Subscription Shares and 15,000,000 Subscription Shares respectively. BOCI Asia, acting as placing agent of the Company, will be entitled to a commission of 2% of the gross proceeds of the Subscriptions. The commission will be payable by the Company. BOCI Asia is independent of, not connected with and not acting in concert with any directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

Subscription Shares

The Subscription Shares represent 17.1% of the existing issued share capital of the Company and approximately 3.8% of the Enlarged Issued Share Capital.

Subscription price

The subscription price is HK\$1.00 per Subscription Share. The Subscription Shares are issued at the same price per Share as those of the Consideration Shares, the Equity Transfer Shares and the Placing Shares.

LETTER FROM THE BOARD

Rights

The Subscription Shares, when issued, will rank pari passu in all respects with the then existing Shares as at the date of issue of the Subscription Shares, including the right to receive all dividends and distributions declared, paid or made with reference to a record date falling on or after the date of their allotment and issue.

Use of proceeds

The net proceeds from the Subscriptions will be approximately HK\$30,380,000 of which approximately HK\$11 million will be mainly used to develop the internet and e-commerce businesses of the Enlarged Group and any balance remaining will be used as general working capital.

Conditions of the Subscriptions

Completion of each of the Subscription Agreements is conditional upon:

- (i) approval by the Shareholders of the issue and allotment of the Subscription Shares pursuant to the relevant Subscription Agreement;
- (ii) completion of the Sale and Purchase Agreement;
- (iii) the passing of an ordinary resolution taken on a poll by the Shareholders who are not interested in the Subscriptions by an independent vote (within the meaning of Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code or as may be required by the Executive) approving a waiver of the obligation on Founder or Mr. Cheung (as the case may be) and parties acting in concert with it or him to make a mandatory general offer for all the Shares under Rule 26 of the Takeovers Code as a result of the issue of the Subscription Shares to Founder or Mr. Cheung (as the case may be) and the Executive granting such a waiver; and
- (iv) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the relevant Subscription Shares.

In the event that any of the above conditions has not been fulfilled by 30th September, 2000 or such later date as the parties to the relevant Subscription Agreement may agree in writing, the relevant Subscription Agreement shall lapse and be terminated.

LETTER FROM THE BOARD

General

The Subscription Agreements constitute connected transactions for the Company for the purposes of the Listing Rules and will require approval by the independent Shareholders who are not interested in the Subscriptions at a general meeting to be convened and held. However, no Shareholders of the Company will be required to abstain from voting on the resolutions approving the Subscription Agreements.

Pursuant to the Acquisition and the Subscriptions, Founder and parties acting in concert with it will hold more than 35% of the voting rights in the Company and will be required to make a mandatory general offer to acquire all Shares which are not held by Founder and parties acting in concert with it under the Takeovers Code. BOCI Asia has applied, on behalf of Founder, to the Executive for the Whitewash Waiver in respect of the general offer requirement. With a view to fulfil the condition (iii) under the heading “Conditions of the Subscriptions” above, the Company will propose a resolution at the SGM, in respect of which Ricwinco and its concert parties will abstain from voting, for the Whitewash Waiver.

Application for listing

Application has been made by the Company to the Stock Exchange for listing of and permission to deal in the Subscription Shares.

4. THE DISPOSAL AGREEMENT

Date

17th May, 2000

Parties

Vendor : the Company

Purchaser : Ricwinco

The Disposal

The entire issued share capital of MITI and the interest in the indebtedness due to the Company by the MITI Group and outstanding as at the Transaction Completion Date will be acquired by Ricwinco from the Company.

LETTER FROM THE BOARD

Consideration and payment term

The total consideration for the Disposal shall be the sum of the audited consolidated net asset value of the MITI Group and the total amount of the debt due from the MITI Group to the Company as at the Transaction Completion Date, which consideration is estimated to be approximately HK\$61 million (based on the unaudited pro forma combined accounts of the MITI Group as at 30th April, 2000). An audited balance sheet of the MITI Group will be prepared and issued no later than 90 days from the Transaction Completion Date (or such other date as the parties to the Disposal Agreement may agree in writing). Pursuant to the Disposal Agreement, the consideration shall be paid in cash by four instalments. The first instalment in the sum of HK\$12 million is to be paid at the Transaction Completion Date and the remaining balance is to be paid by three equal instalments once every three months from the Transaction Completion Date.

The balance of the outstanding instalments of the consideration will be secured by a legal charge over all the issued shares of MITI to be executed by Ricwinco in favour of the Company. No interest is payable on the outstanding balance of the consideration for the Disposal.

Use of proceeds

The gross sale proceeds from the Disposal will be approximately HK\$61 million, of which HK\$4 million will mainly be used by the Company to develop the internet and e-commerce businesses of the Enlarged Group and any balance remaining will be used as general working capital.

Conditions of the Disposal Agreement

Completion of the Disposal Agreement is conditional upon:

- (i) the completion of the formation of the corporate structure of the MITI Group and the reorganisation of the related indebtedness;
- (ii) the approval at a duly convened and held general meeting by the Shareholders independent of Ricwinco and its associates of (a) the sale of the shares in MITI by the Company and the assignment of the related indebtedness to Ricwinco; and (b) all other transactions contemplated under the Disposal Agreement;
- (iii) the completion of the Sale and Purchase Agreement taking place contemporaneously with the completion of the Disposal Agreement; and
- (iv) the Deposited Shares being deposited with the Escrow Agent in accordance with the Escrow Agreement, the arrangement of which is summarised below under the section "THE ESCROW AGREEMENT".

In the event that any of the above conditions has not been fulfilled by 30th September, 2000 or such later date as the parties to the Disposal Agreement may agree in writing, the Disposal Agreement shall lapse and be terminated.

LETTER FROM THE BOARD

General

By virtue of Ricwinco being the existing controlling shareholder of the Company, the Disposal Agreement, when aggregated with the Possible Disposal under the Management Agreement, constitutes a major and connected transaction for the Company for the purposes of the Listing Rules and will require approval by the independent Shareholders of the Company at a general meeting to be convened at which Ricwinco and its associates and parties acting in concert with them shall abstain from voting.

The terms of the Disposal Agreement were determined at arm's length negotiations having regard to the audited net asset value of the MITI Group and the audited book value of the indebtedness due to the Company by the MITI Group as at the Transaction Completion Date.

In addition, the Disposal Agreement constitutes a "Special Deal" under Rule 25 of the Takeovers Code which requires the consent of the Executive under Note 4 to Rule 25 of the Takeovers Code and the approval by a resolution taken on a poll to be voted on by the Shareholders who are not involved in or interested in that transaction. If such consent cannot be obtained, the Sale and Purchase Agreement cannot become unconditional, in which event one of the conditions of the Disposal Agreement, namely, the completion of the Sale and Purchase Agreement, will fail and the Disposal Agreement will be terminated.

5. THE MANAGEMENT AGREEMENT

Date

17th May, 2000

Parties

(i) Principal : the Company

(ii) Manager : Ricwinco

Management Arrangement

The Company has entered into the Management Agreement with Ricwinco under which, subject to Completion, Ricwinco will be appointed as manager for a period of 3 years upon the Transaction Completion Date with responsibility for the management and conduct of the remaining semi-conductor business (conducted by the Yung Wen Group) and weighing scale business (conducted by the MITC Group) of the Company and its subsidiaries and associated companies. There is no service contract between Mr. Yung and Ricwinco.

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Pursuant to the Management Agreement, Ricwinco has unconditionally guaranteed and undertaken to the Company that the audited consolidated profit after taxation and minority interests of the Yung Wen Group and the MITC Group for each of the financial years (or part thereof) from commencement of the term of the Management Agreement shall not respectively be less than an amount equal to 6% of the Yung Wen Opening Net Worth and the MITC Opening Net Worth respectively or the relevant portion of such respective amount corresponding to part of a financial year during which the profit guarantee is effective. If a loss is recorded by the Yung Wen Group and/or the MITC Group, the amount of such loss will form part of the profit shortfall. The auditors of the Company will issue a certificate regarding the fulfilment of the guaranteed profit within three months after the end of the relevant financial year or period. Any shortfall of the guaranteed profit will be paid by Ricwinco to the Company in part (as to such shortfall other than the amount representing any loss of the Yung Wen Group and/or the MITC Group) and the balance to Yung Wen and/or MITC (as to the amount representing any loss of the Yung Wen Group and/or the MITC Group respectively) in cash within 30 days after the issue of the auditors' certificate. The independent non-executive directors of the Company for the time being will review and confirm in the annual report of the Company as to whether such guaranteed profit has been fulfilled.

The profit guarantee in relation to the Yung Wen Group will terminate as from the termination of the appointment of Ricwinco as manager or the completion of the Possible Disposal, whichever is earlier. The profit guarantee in relation to the MITC Group will terminate as from the termination of the appointment of Ricwinco as manager.

Ricwinco will not receive any management fee or other remuneration in whatever form under the Management Agreement.

Ricwinco's undertaking as to the payment of the profit guarantee is to be secured by the arrangements under the Escrow Agreement.

Unaudited pro forma accounts of each of the Yung Wen Group and the MITC Group have been prepared based on the unaudited accounts of the Group as at 30th April, 2000. According to such unaudited pro forma accounts of the Yung Wen Group and the MITC Group, the aggregate of the unaudited pro forma combined net asset value of and the amount due to MIT by the Yung Wen Group and the MITC Group as at 30th April, 2000 were approximately HK\$56 million and approximately HK\$62 million respectively.

Possible Disposal

Pursuant to the Management Agreement, the Company agrees to sell and Ricwinco agrees to purchase or procure its nominee to purchase the entire issued share capital of Yung Wen and the interest in the indebtedness due to the Company by the Yung Wen Group which remains outstanding as at completion of such sale and purchase after the conditions of the Possible Disposal (as stated below) are fulfilled.

LETTER FROM THE BOARD

Consideration and payment terms

The total consideration for the Possible Disposal shall be the sum equal to the audited Yung Wen Opening Net Worth as at the Transaction Completion Date plus the amount of the indebtedness due to the Company by the Yung Wen Group as at completion of the Possible Disposal, to be payable by Ricwinco to the Company in cash at completion of the Possible Disposal pursuant to the Management Agreement. The aggregate of the unaudited pro forma combined net asset value of and the amount due to MIT by the Yung Wen Group as at 30th April, 2000 amounted to approximately HK\$56 million.

Ricwinco's undertaking as to the payment of the purchase price of the Possible Disposal to the Company is to be secured by the arrangements under the Escrow Agreement described below.

Use of proceeds

The gross sale proceeds from the Possible Disposal will be approximately HK\$56 million, of which HK\$19 million will be used by the Company mainly to develop the internet and e-commerce businesses of the Enlarged Group and any balance remaining will be used as general working capital.

Conditions of the Possible Disposal

Completion of the Possible Disposal is conditional upon, amongst others, the following conditions being fulfilled:

- (i) completion of the formation of the corporate structure of the Yung Wen Group and the reorganisation of the relevant inter-company indebtedness;
- (ii) completion of the Sale and Purchase Agreement;
- (iii) the Deposited Shares having been deposited by Ricwinco in an account maintained by the Escrow Agent in accordance with the Escrow Agreement;
- (iv) the issue by Yung Wen of the audited consolidated financial statements of the Yung Wen Group for any of the financial years ending on 31st December, 2000, 2001 and 2002 showing the audited consolidated profit after taxation and minority interests is less than the amount which is equal to 15% of the Yung Wen Opening Net Worth; and
- (v) Ricwinco having the financial resources to pay the consideration on completion of the Possible Disposal.

Ricwinco may waive condition (v) but not the other conditions.

The latest date by which condition (iv) can be satisfied is the date of issue by Yung Wen of the audited consolidated financial statements of the Yung Wen Group for the financial year ending 31st December, 2002.

General

By virtue of Ricwinco being the existing controlling shareholder (currently holding an approximately 54% shareholding in the Company), the Management Agreement (including the Possible Disposal) when

LETTER FROM THE BOARD

aggregated with the Disposal Agreement constitutes a major and connected transaction for the Company for the purposes of the Listing Rules and will require approval by the independent Shareholders of the Company at a general meeting to be convened at which Ricwinco and its associates and parties acting in concert with them shall abstain from voting on the resolutions approving such transactions.

The terms of the Possible Disposal were determined at arm's length negotiations having regard to the audited net asset value of the Yung Wen Group as at the Transaction Completion Date and the amount of the indebtedness due to the Company by the Yung Wen Group as at the completion of the Possible Disposal.

The Possible Disposal constitutes a "Special Deal" under Rule 25 of the Takeovers Code which will require the consent of the Executive under Note 4 to Rule 25 of the Takeovers Code and the passing of an ordinary resolution taken on a poll by the Shareholders of the Company who are not involved in or interested in the Possible Disposal approving the Possible Disposal as required under Note 4 to Rule 25 of the Takeovers Code. Under the Management Arrangement, Ricwinco is required to manage the Yung Wen Group and the MITC Group and provide a profit guarantee in favour of the Company. Accordingly, it derives no benefit from its management obligations under the Management Arrangement.

If such consent from the Executive cannot be obtained, the Sale and Purchase Agreement cannot become unconditional, in which event one of the conditions of the Management Agreement, namely, the completion of the Sale and Purchase Agreement, will fail and the Management Agreement cannot be carried out.

6. THE ESCROW AGREEMENT

Date

17th May, 2000

Parties

Ricwinco and the Company

Escrow Agent

BOCI-Prudential Trustee Limited, which is independent of and not connected with the Company, Ricwinco or the Vendors or any of their subsidiaries or any of their respective directors, chief executives or substantial shareholders, or any of their respective associates.

In order to secure the performance by Ricwinco of its payment obligations under the Disposal Agreement and the Management Agreement, Ricwinco, the Company and the Escrow Agent entered into the Escrow Agreement on 17th May, 2000. Pursuant to the Escrow Agreement, Ricwinco will, at the Transaction Completion Date, deposit 72,000,000 Shares held by it to the Escrow Agent to be dealt with in accordance with the Escrow Agreement.

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Of the 39,000,000 Shares out of the Deposited Shares in a general share account and before discharge of the Outstanding Consideration Payments under the Disposal Agreement, Ricwinco may sell such Shares at not less than HK\$1.62 per Share or pay to have such Shares released at HK\$1.99 per Share. The proceeds of any such sale will be used to pay the Outstanding Consideration Payments. If Ricwinco uses other means to pay any Outstanding Consideration Payments, a corresponding number of Shares will be released at HK\$1.99 per Share.

After discharge of all the Outstanding Consideration Payments, up to 19,000,000 Shares out of the Shares in the general share account may be returned to Ricwinco and Ricwinco may sell the rest of the Shares left in the general share account at not less than HK\$2.40 per Share (with the sale proceeds remaining on deposit with the Escrow Agent). Upon completion of the Possible Disposal, all of the remaining Shares and all sale proceeds derived therefrom shall be returned to Ricwinco except for 5,000,000 Shares to secure the profit guarantee obligations of Ricwinco for the MITC Group under the Management Agreement.

The other 33,000,000 Shares out of the Deposited Shares will be deposited in a reserve share account. Shares in the reserve share account may be sold by Ricwinco at not less than HK\$2.40 per Share (with the sale proceeds remaining in deposit with the Escrow Agent). When the sale proceeds match the amount of the Yung Wen Opening Net Worth, the rest of the Shares in the reserve share account will be returned to Ricwinco.

After all the Outstanding Consideration Payments have been made, and all profit shortfall compensation and the consideration for the Possible Disposal have been paid, all Shares or any sale proceeds therefrom held by the Escrow Agent shall be released and returned to Ricwinco.

Ricwinco undertakes that it shall not at any time during the period commencing on and from the date of the Escrow Agreement up to (and including) the day on which the Sale and Purchase Agreement is completed or, as the case may be, lapses or is terminated in accordance with its terms (save with the prior written consent of the Company), transfer, exchange or otherwise dispose of (other than by the granting or creation of any pledge, charge or other encumbrance over) any of the Shares beneficially owned by Ricwinco.

In the event that the Sale and Purchase Agreement is completed, Ricwinco shall not at any time during the period of three months commencing on the day immediately following the day on which the Sale and Purchase Agreement is completed (save with the prior written consent of the Company or by way of a disposal at a price of not less than HK\$2.40 per Share) transfer, exchange or otherwise dispose of (other than by the granting or creation of any encumbrance over) any of the Shares which it owns beneficially as at the date of the Escrow Agreement (other than the Deposited Shares).

Upon the expiry of the three month period as stated above, Ricwinco shall be under no restrictions whatsoever under the Escrow Agreement in respect of dealings in the remaining 25,680,000 Shares held by it (based on its current shareholding), which will not form part of the Deposited Shares.

LETTER FROM THE BOARD

The above undertaking shall terminate and be of no further effect upon the termination of the Sale and Purchase Agreement.

7. THE EQUITY TRANSFER AGREEMENT

Date

17th May, 2000

Parties

- (i) Vendor : Yahoo!
- (ii) Purchaser : the Company
- (iii) Founder Electronics (which joined as a party to provide undertakings to Yahoo! including to procure Founder Data and Beijing Founder Electronics Co., Ltd. to give consent to the transfer of 19.9% of the equity interest in AdTargeting by Yahoo! to Datacom and to assist in obtaining the relevant PRC approval to such transfer)

The Equity Transfer

The Company will acquire from Yahoo! a 100% interest in Datacom (to which Yahoo! has transferred its 19.9% interest in AdTargeting) together with the entire amount of any and all outstanding shareholder loans owed by Datacom as at completion of the Equity Transfer Agreement for a consideration of HK\$93,240,000 to be satisfied by the issue of the Equity Transfer Shares by the Company as described below.

Datacom holds a 19.9% interest in AdTargeting and the remaining 80.1% interest in AdTargeting is held by Founder Data. The entire issued share capital of AdTargeting will be acquired by the Company upon Completion which will take place at the same time as the completion of the Equity Transfer Agreement.

Datacom was incorporated on 12th April, 2000 as a shelf company and has not carried on any business since its incorporation. AdTargeting is a wholly foreign owned enterprise established on 25th April, 2000 which is an internet advertisement agent. As at 31st May, 2000, the net asset value and loss after taxation of AdTargeting were approximately HK\$1,300,000 and HK\$1,100,000 respectively. The pro forma net asset value of Datacom as at 31st May, 2000 was approximately HK\$258,000.

Consideration

The consideration for the Equity Transfer shall be in the amount of HK\$93,240,000, which was determined on the basis of arm's length negotiations with reference to the future prospects and the business potential of AdTargeting and the synergy and expertise which Yahoo! has brought to the businesses of AdTargeting. The consideration shall be satisfied by the issue by the Company of 93,240,000 new Shares to Yahoo!.

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The value which may be attributable to the 19.9% interest in AdTargeting as derived from the independent valuation of Founder Data, which valuation comprises 80.1% interest in AdTargeting and 100% interest in each of EC-Media and EC-Tech, is US\$10.68 million (approximately HK\$83.3 million), which is at a discount of approximately 10.7% to the consideration. The value was calculated by multiplying the individual valuation of AdTargeting which forms part of the total valuation of Founder Data by 19.9%.

The Equity Transfer Shares represent approximately 51.46% of the existing issued share capital of the Company and approximately 11.36% of the Enlarged Issued Share Capital. The Equity Transfer Shares will rank pari passu in all respects with the existing Shares, including the right to receive all dividends and distributions declared, paid or made as at the date of issue of the Equity Transfer Shares.

Issue price

The issue price is HK\$1.00 per Equity Transfer Share. The Equity Transfer Shares are issued at the same price per Share as those of the Consideration Shares, the Subscription Shares and the Placing Shares.

Conditions of the Equity Transfer Agreement

Completion of the Equity Transfer Agreement shall be conditional upon the fulfilment of the following conditions:

- (i) the completion of the Sale and Purchase Agreement in accordance with its terms;
- (ii) the conditions set out in items (i), (ix) and (xiv) under “Conditions of the Sale and Purchase Agreement” in the section “THE SALE AND PURCHASE AGREEMENT” above being fulfilled unless waived by Yahoo! in writing;
- (iii) approval of the issue of the Equity Transfer Shares by the Shareholders;
- (iv) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Equity Transfer Shares;
- (v) (if required) the Bermuda Monetary Authority granting its permission to the issue and allotment of the Equity Transfer Shares;
- (vi) approval of the transfer of 19.9% equity interest in AdTargeting from Yahoo! to Datacom by the original examination and approval authority of AdTargeting in the PRC and completion of such transfer;
- (vii) completion to the satisfaction of Yahoo! of its due diligence review of the corporate status, the business and the financial and other conditions of the MIT Group;

LETTER FROM THE BOARD

- (viii) there being no adverse material change in the business, financial and other conditions of the MIT Group since the date of the Equity Transfer Agreement and up to the completion of the Equity Transfer Agreement; and
- (ix) there being no material adverse tax impact on Yahoo! as a result of the transactions contemplated by the Equity Transfer Agreement.

If the above conditions are not fulfilled on or before 30th September, 2000 or such later date as Founder Electronics and the Company may agree and notify Yahoo! in writing on or before 30th September, 2000, the Equity Transfer Agreement shall lapse and terminate and thereafter all rights, obligations and liabilities of all parties to the Equity Transfer Agreement shall cease and terminate except for any antecedent breach.

General

Yahoo! and its associates are independent of and not connected with any of the directors, chief executives, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. For the period between the date of the Equity Transfer Agreement and the Latest Practicable Date, Yahoo! and its associates did not hold any Shares.

The Equity Transfer constitutes a major and connected transaction under Rule 14.23(1) (b) of the Listing Rules for the Company and will require independent Shareholders' approval at a general meeting to be convened and held. No Shareholders will be required to abstain from voting on the resolution approving the Equity Transfer Agreement.

Application for listing

Application has been made by the Company to the Stock Exchange for listing of and permission to deal in the Equity Transfer Shares.

8. THE PLACING AGREEMENTS

Date

17th May, 2000

The Company has conditionally agreed to place through BOCI Asia, acting as the placing agent of the Company, a total of 75,560,000 new Shares to independent investors at a price of HK\$1.00 per Share.

Placing agent

BOCI Asia is the placing agent of the Placing and will be entitled to a placement commission of 2% on the gross proceeds of the Placing. BOCI Asia is independent of, not connected with and not acting in concert with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

LETTER FROM THE BOARD

Placees

Sunevision will subscribe for 60,500,000 Placing Shares and five other individual investors will subscribe for an aggregate of 15,060,000 Placing Shares respectively. There are, in aggregate, six placees. All placees (excluding Sunevision) and their respective associates are independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, and are not acting in concert with Founder and any of the parties acting in concert with Founder. For the period between the date of each of the Placing Agreements and the Latest Practicable Date, none of the placees (excluding Sunevision) or any of their associates held any Shares.

Sunevision is listed on the Growth Enterprise Market of the Stock Exchange and is the technology and e-business arm of Sun Hung Kai Properties Limited whose shares are listed on the Stock Exchange. It provides a wide range of internet business from infrastructure, e-commerce to venture capital. Sunevision is independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, and is not acting in concert with Founder or any of the parties acting in concert with Founder. For the period between the date of the Placing Agreement and the Latest Practicable Date, Sunevision did not hold any Shares.

Number of Shares to be placed

75,560,000 new Shares are to be placed, representing approximately 41.70% of the existing issued share capital of the Company and approximately 9.21% of the Enlarged Issued Share Capital.

Placing price

The issue price is HK\$1.00 per Placing Share. The Placing Shares are issued at the same price per Share as those of the Consideration Shares, the Subscription Shares and the Equity Transfer Shares.

The issue price of HK\$1.00 per Placing Share represents (i) a discount of about 28.6% to the closing price of HK\$1.40 per Share as quoted on the Stock Exchange as at 4th May, 2000, being the last trading day prior to the date of the Announcement; (ii) a discount of about 0.6% to the average closing price of HK\$1.006 per Share as quoted on the Stock Exchange from 18th April, 2000 to 4th May, 2000, being the last ten trading days prior to the date of the Announcement; (iii) a premium of about 5.4% to the audited consolidated net asset value of the Company as at 31st December, 1998 of approximately HK\$0.949 per Share; and (iv) a discount of about 4.9% to the audited consolidated net asset value of the Company as at 31st December, 1999 of approximately HK\$1.051 per Share.

The board of directors of the Company is of the view that the pricing and timing of the Placing are fair and reasonable.

LETTER FROM THE BOARD

Rights

The Placing Shares, when issued, will rank pari passu in all respects with the then existing Shares as at the date of issue of the Placing Shares.

Use of proceeds

The net proceeds of the Placing are expected to be approximately HK\$74 million of which approximately HK\$25 million will be used by the Company for the development of the internet and e-commerce businesses of the Enlarged Group and the remaining balance will be used as general working capital.

Conditions of the Placing

Completion of each Placing Agreement shall be conditional upon the fulfilment of the following conditions:

- (i) approval by the Shareholders of the issue and allotment of the Placing Shares pursuant to the relevant Placing Agreement;
- (ii) completion of the Sale and Purchase Agreement; and
- (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the relevant Placing Shares.

Shareholders' approval

The Company will seek approval from Shareholders regarding the allotment and the issue of the Placing Shares at the Special General Meeting. No Shareholders will be required to abstain from voting regarding the Placing.

Completion

The Placing will be completed on the Transaction Completion Date. The Placing Agreements will lapse if any of the conditions of the Placing is not satisfied by 30th September, 2000.

Each of the places has undertaken to the Company that it will not, save with the prior written consent of the Company, transfer, exchange or otherwise dispose of, or grant or create any encumbrance over or in respect of any of the relevant Placing Shares prior to the date falling three months after the Transaction Completion Date.

Application for listing

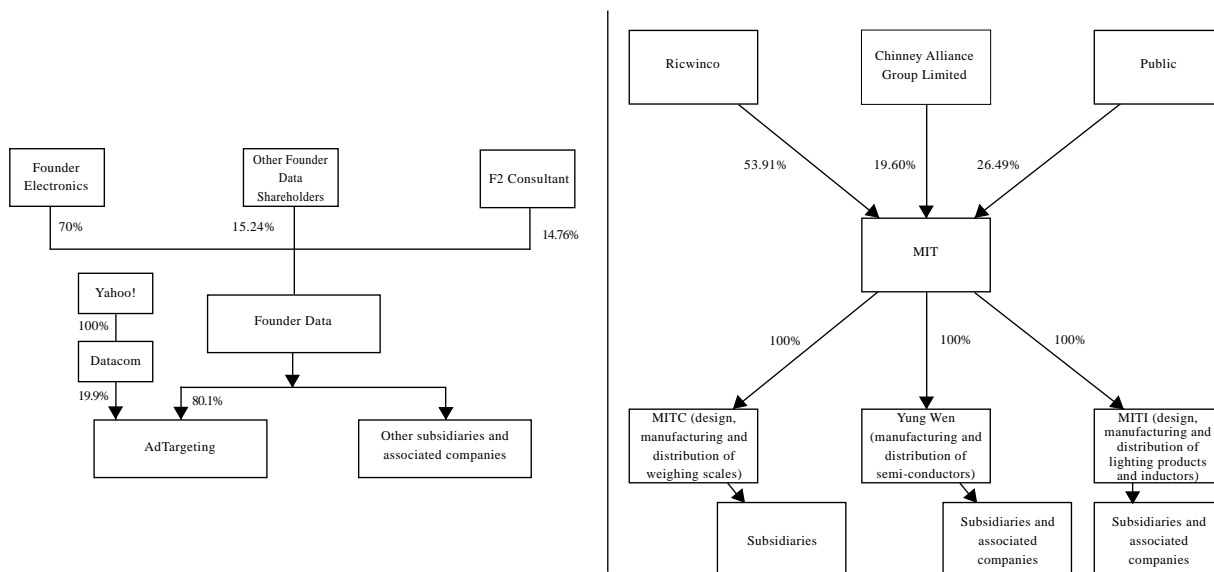
Application has been made by the Company to the Stock Exchange for listing of and permission to deal in the Placing Shares.

LETTER FROM THE BOARD

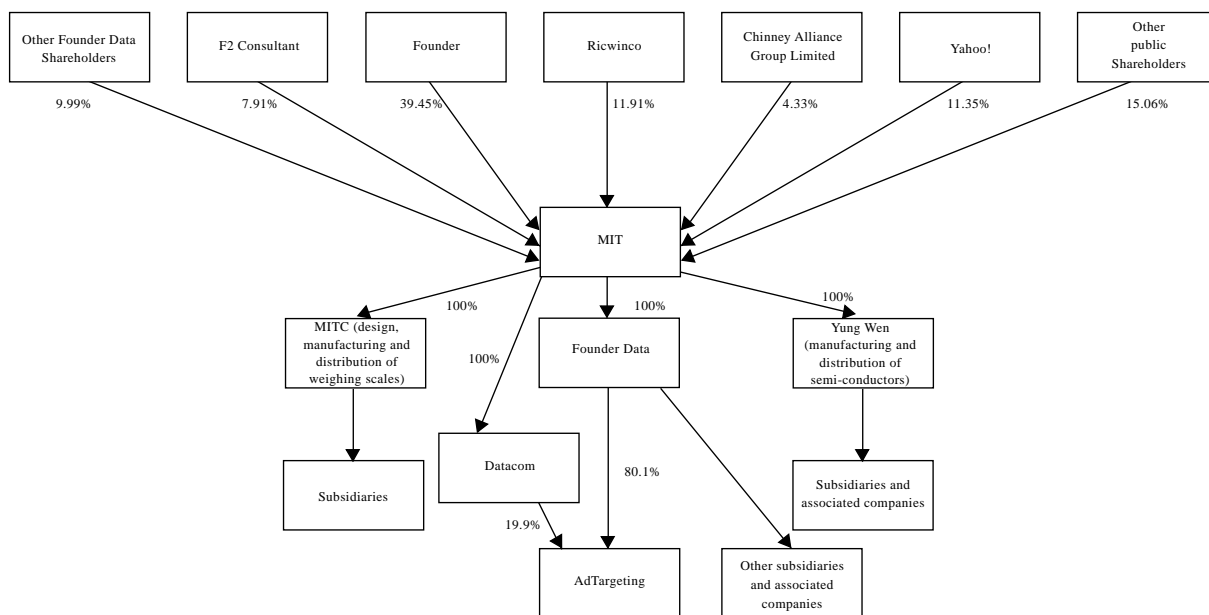
9. SHAREHOLDING STRUCTURE OF MIT

The following charts show the shareholding structures of Founder Data and the Company before and after the Acquisition, the Subscriptions, the Equity Transfer, the Disposal and the Placing.

Immediately before the Acquisition, the Subscriptions, the Equity Transfer, the Disposal and the Placing



Immediately after the Acquisition, the Subscriptions, the Equity Transfer, the Disposal and the Placing (but before the Possible Disposal)



LETTER FROM THE BOARD

The following table shows the shareholding structure of the Company (i) before the Acquisition; (ii) after the Acquisition, the Subscriptions and the Equity Transfer but before the Placing; and (iii) after the Acquisition, the Subscriptions, the Equity Transfer and the Placing.

	Before the Acquisition		After the Acquisition, the Subscriptions and the Equity Transfer but before the Placing		After the Acquisition, the Subscriptions, the Equity Transfer and the Placing	
	<i>Number of Shares (m)</i>	<i>%</i>	<i>Number of Shares (m)</i>	<i>%</i>	<i>Number of Shares (m)</i>	<i>%</i>
Founder	—	—	323.7	43.45	323.7	39.45
Yahoo!	—	—	93.2	12.51	93.2	11.35
Other Founder						
Data Shareholders	—	—	82.0	11.01	82.0	9.99
F2 Consultant	—	—	64.9	8.71	64.9	*7.91
Ricwinco	97.7	53.91	97.7	13.11	97.7	11.91
Chinney Alliance						
Group Limited	35.5	19.60	35.5	4.77	35.5	*4.33
Places under the Placing	—	—	—	—	75.6	*9.21
Other public Shareholders	48.0	26.49	48.0	6.44	48.0	*5.85
	<u>181.2</u>	<u>100</u>	<u>745.0</u>	<u>100</u>	<u>820.6</u>	<u>100</u>

* *Public shareholding (total: 27.3%)*

10. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

To satisfy one of the conditions precedent under the Sale and Purchase Agreement, a resolution will be proposed at the SGM for the authorised share capital of the Company to be increased from HK\$50,000,000 to HK\$300,000,000 by the creation of 2,500,000,000 new Shares. The Company will issue 639,360,000 Shares in aggregate under the Acquisition, the Subscriptions, the Equity Transfer and the Placing. Except for the Consideration Shares, the Equity Transfer Shares, the Subscription Shares and the Placing Shares, the Company does not have any present intention to issue any new Shares.

11. INFORMATION ON THE FOUNDER DATA GROUP

For details of the businesses of the Founder Data Group, please refer to section 2 of the “LETTER FROM FOUNDER” of this circular.

12. INFORMATION ON THE GROUP

The Company and its subsidiaries and associated companies are principally engaged in the design, manufacturing and marketing of consumer and industrial electronic products.

LETTER FROM THE BOARD

The principal business activities of the MITI Group are the design, manufacturing and distribution of lighting products and inductors and those of the Yung Wen Group are the manufacturing and distribution of semi-conductor products such as switching diodes, zener diodes, small signal transistors and rectifiers. The MITC Group is principally engaged in the design, manufacturing and distribution of weighing scales. Currently, the MITC Group engages approximately 700 employees and workers in both of its manufacturing facilities in Dongguan, the PRC and in Hong Kong.

The audited consolidated net profit/(loss) before and after taxation and minority interests of the Group in respect of the five financial years ended 31st December, 1995 to 1999 are set out in Appendix III of the circular.

The pro forma statement of unaudited adjusted consolidated net tangible assets of the Enlarged Group and the pro forma statement of assets and liabilities of the Enlarged Group are set out in Appendix IV of the circular.

The respective unaudited pro forma combined profit and loss accounts of each of the MITI Group, the Yung Wen Group and the MITC Group for the three financial years ended 31st December, 1997, 31st December, 1998 and 31st December, 1999 and their respective unaudited pro forma combined net asset value as at 31st December, 1997, 31st December, 1998 and 31st December, 1999 are as follows:

	MITI Group			Yung Wen Group			MITC Group		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	20,849	(14,242)	(11,389)	(2,601)	(31,105)	2,286	322	(1,445)	2,390
Taxation	(678)	521	(387)	147	(6)	(116)	—	—	(903)
Profit/(loss) before minority interests	20,171	(13,721)	(11,776)	(2,454)	(31,111)	2,170	322	(1,445)	1,487
Minority interests	—	(3)	370	—	—	266	—	—	—
Net profit/(loss) attributable to shareholders	<u>20,171</u>	<u>(13,724)</u>	<u>(11,406)</u>	<u>(2,454)</u>	<u>(31,111)</u>	<u>2,436</u>	<u>322</u>	<u>(1,445)</u>	<u>1,487</u>
Net asset value	<u>64,600</u>	<u>85,600</u>	<u>88,000</u>	<u>62,400</u>	<u>33,500</u>	<u>46,400</u>	<u>59,600</u>	<u>53,900</u>	<u>82,900</u>

Upon completion of the Acquisition, the Equity Transfer and the Disposal, the Enlarged Group will then be principally engaged in the semi-conductor business (as carried out by the Yung Wen Group), the weighing scale business (as carried out by the MITC Group) and the internet advertising agency service and other e-commerce business (as carried out by the Founder Data Group).

LETTER FROM THE BOARD

13. REASONS FOR THE TRANSACTIONS

The board of directors of the Company considers that the Acquisition will allow the Company to diversify into the on-line advertising business which may present promising prospects to the Company in view of the recent upsurge of e-commerce activities.

The Disposal Agreement allows the Company to divest from its design, manufacturing and distribution of lighting product and inductor businesses, thereby concentrating its resources on developing other areas of business.

The Management Agreement allows the Company to retain the expertise in the operation of the remaining businesses of semi-conductor products and weighing scales. However, in the event that the Yung Wen Group fails to deliver a satisfactory return to the Company, pursuant to the Management Agreement, the Company will sell the Yung Wen Group to Ricwinco at the Yung Wen Opening Net Worth plus any outstanding debts due to the Company from the Yung Wen Group as at completion of the Possible Disposal, thereby further concentrating its resources on developing other areas of business.

The Escrow Agreement aims at ensuring that Ricwinco will have sufficient financial resources to carry out its payment obligations under the Disposal Agreement and the Management Agreement.

The Equity Transfer Agreement will result in Yahoo! directly holding shares in the Company in return for selling its interest in AdTargeting to the Company.

14. PROPOSED CHANGE OF BOARD COMPOSITION

It is expected that upon Completion, all the directors of the Company, other than Mr. Yung, Mr. Richard Yung, Jr. and the two independent non-executive directors of the Company, will resign. Please refer to section 3 of "LETTER FROM FOUNDER" of this circular for details of the proposed new directors of the Company.

LETTER FROM THE BOARD

15. TAKEOVERS CODE IMPLICATIONS FOR FOUNDER

Upon the issue of the Consideration Shares, the Equity Transfer Shares, the Subscription Shares and the Placing Shares, the aggregate shareholding in the Company of Founder together with the parties acting in concert with it (i.e. the other Vendors) will become approximately 57.35% (Founder – 39.45%, Other Founder Data Shareholders – 9.99%, F2 Consultant – 7.91%). Under the Takeovers Code, unless the Whitewash Waiver is obtained, Founder and parties acting in concert with it would be obliged to make an unconditional general offer to acquire all the Shares other than those already owned by it and parties acting in concert with it.

An application has been made on behalf of Founder by BOCI Asia to the Executive for the Whitewash Waiver in respect of the 470,560,000 Shares in aggregate (representing approximately 57.35% of the Enlarged Issued Share Capital) to be issued to the Vendors under the Sale and Purchase Agreement and to Founder and Mr. Cheung under the Subscription Agreements, which will be subject to the approval of the independent Shareholders on a vote taken by way of a poll. Subject to the approval of the independent Shareholders, the Executive has agreed to waive any obligation to make a general offer. Completion of the Acquisition and the Subscriptions is conditional upon, inter alia, the granting of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not granted, or if any of the conditions subject to which the Whitewash Waiver may be granted is not fulfilled, (unless, (i) in relation to the Sale and Purchase Agreement, the condition as to the granting of the Whitewash Waiver is waived by the Vendors, and (ii) in relation to the Equity Transfer Agreement, such condition is waived by Yahoo! and the condition as to the completion of the Sale and Purchase Agreement is waived by agreement between Yahoo! and the Company) the Sale and Purchase Agreement, the Subscription Agreements and the Equity Transfer Agreement will not become unconditional and therefore cannot be completed. In that event, the issue of the Equity Transfer Shares under the Equity Transfer Agreement, the Subscription Shares under the Subscription Agreements and the Placing Shares under the Placing Agreements will not proceed and the obligation to make a general offer will not arise.

Upon the issue of the Consideration Shares, the Equity Transfer Shares, the Subscription Shares and the Placing Shares, the aggregate shareholding of Founder and parties acting in concert with it in the Enlarged Group will exceed 50%, and Founder and parties acting in concert with it will be free to increase their shareholding in the Enlarged Group afterwards without incurring any further obligation under the Takeovers Code to make a general offer.

LETTER FROM THE BOARD

16. MAINTAINING THE LISTING OF MIT

It is the intention of the future directors of the Company including the remaining directors of the Company to maintain the listing of the Shares on the Stock Exchange after Completion. Accordingly, the Company and all the future directors of the Company are expected to jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Shares.

The Stock Exchange has stated that it will closely monitor the trading of the Shares if less than 25% of the Shares are held by the public. If the Stock Exchange believes that:

- a false market exists or may exist in the Shares; or
- there are too few Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has the discretion to require the Company to issue a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Enlarged Group. The Stock Exchange also has the power to aggregate a series of transactions and any such transaction may result in the Company being treated as if it were a new listing applicant.

The future directors of the Enlarged Group do not have any present intention to inject any further assets into the Company.

17. GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES

At the Special General Meeting two ordinary resolutions will be proposed which will respectively (i) grant to the directors of the Company a general mandate to allot, issue and deal with new Shares not exceeding 20% of the aggregate of (a) the nominal amount of the issued share capital of the Company at the date of such resolution and (b) the nominal amount of the Consideration Shares, the Subscription Shares, the Equity Transfer Shares and the Placing Shares if and to the extent that any or all of those Shares are allotted and issued in accordance with Ordinary Resolutions Nos. 1, 5, 6, 8, and 9 respectively as set out in the notice convening the Special General Meeting; and (ii) add to such general mandate so granted to the directors of the Company any new Shares representing the aggregate nominal amount of the share capital of the Company repurchased by the Company after the passing of the Ordinary Resolution No. 11 as set out in the notice convening the Special General Meeting.

LETTER FROM THE BOARD

In addition, the directors of the Company will seek approval of the repurchase mandate to be proposed at the Special General Meeting. An explanatory statement as required under the Listing Rules to provide the requisite information in respect of the repurchase mandate is set out in Appendix VI of the circular.

18. GENERAL

Each of the Sale and Purchase Agreement and the Equity Transfer Agreement constitutes a major and connected transaction for the Company. The Disposal Agreement and the Management Agreement, in aggregate, also constitute a major and connected transaction for the Company. Each of the Subscription Agreements constitutes a connected transaction for the Company.

An independent committee of the board of directors of the Company has been established to consider, inter alia, the Sale and Purchase Agreement, the Subscription Agreements, the Disposal Agreement, the Management Agreement, the Equity Transfer Agreement and the Whitewash Waiver. The members of the Independent Board Committee are Mr. Andrew Ying Biu Lee and Mr. Richard Lin Yang, both of whom are independent non-executive directors of the Company. Dr. James Sai Wing Wong and Mr. James Sing Wai Wong are not eligible to be members of the Independent Board Committee under the Listing Rules because of their indirect shareholding interests in Chinney Alliance Group Limited, which held a 19.60% interest in the Company as at the Latest Practicable Date. Mr. Richard Chih Shin Yung, Mr. Richard Yung, Jr. and Mr. King Shing Lee are also not eligible to be members of the Independent Board Committee as they are all salaried directors and have (or are deemed to have) interests either in the Company or the Transactions. Asia Financial, an independent financial adviser, has been appointed to advise the Independent Board Committee regarding the Sale and Purchase Agreement, the Subscription Agreements, the Disposal Agreement, the Management Agreement, the Equity Transfer Agreement and the Whitewash Waiver.

Resolutions for the approval of the Sale and Purchase Agreement, the Subscription Agreements, the Disposal Agreement, the Management Agreement and the Equity Transfer Agreement, and in relation to the Whitewash Waiver, will be proposed and voted on by independent Shareholders at the Special General Meeting and Ricwinco and its associates and parties acting in concert with them will abstain from voting in relation to the resolutions for the approval of (i) the Sale and Purchase Agreement; (ii) the Disposal Agreement; (iii) the Management Agreement (which includes the Possible Disposal); and (iv) the Whitewash Waiver.

Application has been made by the Company to the Stock Exchange for listing of and permission to deal in the Consideration Shares, the Subscription Shares, the Equity Transfer Shares and the Placing Shares.

LETTER FROM THE BOARD

19. RECOMMENDATIONS

Asia Financial has been appointed to advise the Independent Board Committee on the Sale and Purchase Agreement, the Subscription Agreements, the Equity Transfer Agreement, the Disposal Agreement, the Management Agreement and the Whitewash Waiver. The Independent Board Committee, having taken into account the advice of Asia Financial, considers that the terms of the Sale and Purchase Agreement, the Equity Transfer Agreement, the Disposal Agreement, the Management Agreement, the Subscription Agreements and the Whitewash Waiver are fair and reasonable and are in the interests of the Company so far as the independent Shareholders are concerned and recommends the independent Shareholders to vote in favour of the ordinary resolutions with regard thereto to be proposed at the SGM. The letter from the Independent Board Committee is set out on pages 53 to 54 of this circular, and the letter of advice from Asia Financial is set out on pages 55 to 107 of this circular.

The directors of the Company also recommend to Shareholders to vote in favour of the ordinary resolutions regarding the increase in the authorised share capital, the issue of the Placing Shares, the general mandate to issue Shares and the general mandate to repurchase Shares.

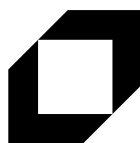
Yours faithfully,

For and on behalf of the Board of

Management Investment & Technology (Holdings) Limited

Richard Chih Shin Yung

Chairman



方正集团

FOUNDER HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Executive directors:

Professor Wang Xuan
Mr. Cheung Shuen Lung
Mr. Zhang Zhao Dong
Professor Wei Xin
Mr. Lei Hon Sang
Mr. Lo Siu Yu

Independent non-executive directors:

Dr Hu Hung Lick, Henry
Mr. Li Fat Chung

Head office and principal

place of business:

Unit 1408, 14th Floor
Cable TV Tower
No.9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

Registered office:

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

9th September, 2000

To the Shareholders of

Management Investment & Technology (Holdings) Limited

Dear Sir or Madam,

Disposal of 70% interest in Founder Data Corporation International Limited to Management Investment & Technology (Holdings) Limited

1. INTRODUCTION

It was announced on 24th May, 2000 that the Sale and Purchase Agreement was entered into on 17th May, 2000, further details of which are set out in the section “LETTER FROM THE BOARD” on pages 15 to 43 of the circular to the Shareholders of MIT dated 9th September, 2000 (the “Circular”), of which this letter forms part. The purpose of this letter is to provide you with, inter alia, additional information on the Founder Data Group.

LETTER FROM FOUNDER

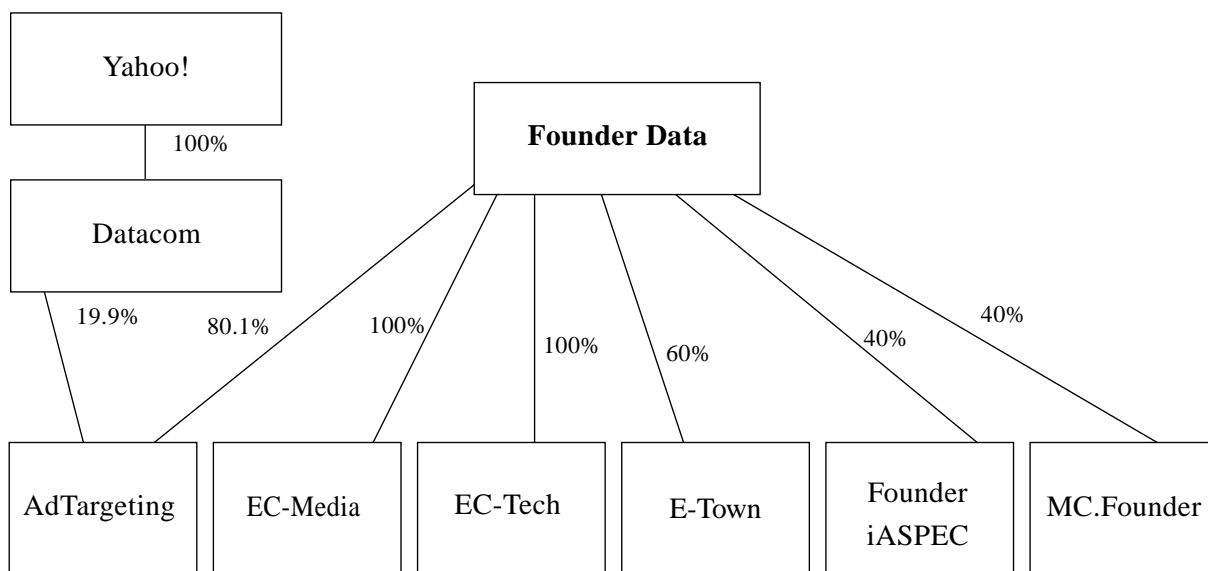
Terms used in the this letter have the same meanings as those defined in the Circular.

Your attention is also drawn to the letter from the Board, the letter from the Independent Board Committee and the letter from Asia Financial as set out in the Circular.

2. INFORMATION ON THE FOUNDER DATA GROUP

2.1 Group structure of the Founder Data Group

The group structure of the Founder Data Group is as follows:



2.2 Business of the Founder Data Group

2.2.1 Founder Data

Founder Data was incorporated in the British Virgin Islands on 8th December, 1999. Founder Data is an investment holding company. The subsidiaries and associated companies of Founder Data are engaged in the provision of internet advertising agency service, business-to-business exchange platforms of content and advertisement space to the media industry, and e-commerce solutions and development. Currently, the Founder Data Group has over 120 employees all of whom are university graduates.

LETTER FROM FOUNDER

The audited net loss after taxation and minority interests of the Founder Data Group for the period from 8th December, 1999 to 31st December, 1999 and the three months ended 31st March, 2000 were HK\$Nil and HK\$1,570 respectively. The audited consolidated net asset value of the Founder Data Group as at 31st December, 1999 and 31st March, 2000 were HK\$775 and HK\$75,934, respectively.

The Founder Data Group comprises AdTargeting (80.1%), EC-Media (100%), EC-Tech (100%), E-Town (60%), Founder iASPEC (40%) and MC.Founder (40%).

2.2.2 AdTargeting

AdTargeting is a Sino-foreign joint venture established on 25th April, 2000 which designs and produces internet advertisement by using an “Ad Server” technology which it has licensed from Yahoo! under a Technology Licence Contract entered into with Yahoo!, and by making use of the extensive alliance the Founder Group has established with the Chinese news media, and aims to assume a leading position in the rapidly growing internet advertising market. AdTargeting is also engaged in the development of computer software and networks and the provision of technical consultancy services. It is also an internet advertisement agent and a website design and production company. Following the Acquisition and the completion of the Equity Transfer Agreement, AdTargeting will become indirectly wholly-owned by the Company.

AdTargeting is a total solution provider of network integration. By employing new technologies of web-broadcasting, AdTargeting aims to provide on-line sales solutions tailored to help clients to promote on-line sales campaign and on-line brand name promotion services.

Pursuant to the Advertising Sales Representative Agreement between Yahoo! Holdings (Hong Kong) Limited (a wholly-owned subsidiary of Yahoo!), Founder Electronics and AdTargeting, AdTargeting has been appointed as Yahoo!’s on-line advertising agent in the PRC. In addition, AdTargeting has established a Super Media Alliance “SMA” with more than 30 leading newspapers and publishers in the PRC to act as an exclusive agent for their website advertisements.

With the licence to use the “Ad Server” technology from Yahoo!, AdTargeting is able to provide website advertisement, broadcasting and management services, including the management of broadcasting time, resources, advertisement targeting and feedback reports.

The members of SMA include leading news and media websites in the PRC. With the growing number of members in SMA, AdTargeting will be able to further promote the websites of various SMA members, assisting them to further consolidate their positions as major PRC on-line news portals, thereby further expanding AdTargeting’s advertisement network.

LETTER FROM FOUNDER

Services provided by AdTargeting include:

- providing advertising sales service to Yahoo! in the PRC in accordance with the terms of the Advertising Sales Representative Agreement;
- establishing SMA through Founder's publishing business clients in China by allowing them to share news content, advertisement broadcasting technology and on-line advertising resources for clients all over the PRC;
- providing comprehensive on-line sales solutions to customers through integrating traditional media resources with on-line resources thereby bolstering product awareness and e-business development of its clients;
- providing total solutions to advertisement clients. Services range from web promotion plans, web advertisement design to webpage advertisement, broadcasting and monitoring; and
- providing website planning, construction, design and production and technical support services to its clients.

2.2.3 EC-Media

To further expand its businesses, the Founder Data Group is setting up the business-to-business e-commerce platforms through EC-Media to cater specifically for the production, operation and servicing activities which are relevant to the news publication/network media. EC-Media will establish platforms which allow relevant participants to conduct on-line trading of press content such as news and photos and the trading of advertisements relevant to various media advertising resources.

EC-Media, which was incorporated on 21st February, 2000, is engaged in the provision of e-business applications for the media industry. It provides on-line information storage services for information distributing institutes such as press and publishers. It also offers information exchange and enquiry services for media, websites, enterprises, hospitals, individuals and other information seekers. Another major business of EC-Media involves the provision of on-line advertising space exchange services and advertising resources enquiry service for advertisement media owners (e.g. the media, websites and outdoor advertisement banner owners), advertisers (including enterprises and individuals) and advertising agents. Income of EC-Media are derived from membership fees, transaction intermediary charges, consultation fees and fees for other value-added services.

LETTER FROM FOUNDER

Founder, the ultimate 70% shareholder of Founder Data, is one of the largest information technology corporations in Mainland China and a leading information technology service provider to the publishing industry. Founder is one of the widely recognized brand names in the publishing industry in Mainland China where it has established a solid customer base. It provides news editing system and newspaper advertisement management system to the majority of the leading publishers in Mainland China and overseas. It has also maintained a close business relationship with content owners, advertisers and advertising agents. It also offers management system on program production and broadcasting to radio and television stations.

Capitalising on the existing extensive client base and the hands-on experience in the media and advertising industries of Founder, EC-Media is equipped with the experience and expertise to serve the substantial number of potential customers in the PRC media industry. EC-Media helps to facilitate the application of e-business in the media industry by establishing e-business platforms for information storage and exchange and for exchange of advertisement space between different media.

The primary businesses of EC-Media include:

1. The establishment and operation of advertisement resources enquiry services and an on-line content exchange platform

The platform system offers three kinds of services. Firstly, it distributes advertising resources information (including location of advertisement, size, restrictions and pricing) to advertising companies and agents. Secondly, it provides secured on-line transaction platform for advertising companies, agents and the media to execute and settle advertising transactions. Thirdly, the system provides research reports on trends in the advertising market, comprehensive promotion strategy consultation services, and also advertisement design and production services.

2. Content storage services and content copyright dealings

Content storage services refer to the provision of secured data storage by establishing highly reliable storage server system to store historical data for clients. As for content copyright dealings, EC-Media acts as an agent for owners of intellectual property rights (such as newspaper and magazine articles, television programs, etc.) including various media reporters and other information possessors, and sells rights of use of such information to information consumers including websites, enterprises, schools and media.

Capitalising on the technological expertise and solid technology strength of Founder, EC-Media aims to develop efficient, secured and multi-functions e-commerce platforms. Based on the current customer base of Founder in the media industry, the company strives to establish a new internet-based business model for the media industry.

2.2.4 EC-Tech

The Founder Data Group also acts as a software developer through EC-Tech which caters for e-commerce, with emphasis on the development of e-commerce platform technology and the provision of application service primarily for retail management and supply chain management.

EC-Tech, which was incorporated on 21st February, 2000, is engaged in the development of e-business platforms and applications as well as provision of system integration for e-business.

The e-business platform and application development operation of EC-Tech provides products such as e-business middleware, safety products, content editing, broadcasting and procedure control and content presentation (e.g. online 3D presentation of products). EC-Tech has already launched ET SAFE. ET SAFE is a network security product with packet filtering and cache server features. It keeps log of all data flows for recovery analysis in emergencies. It provides virtual private network through data flow encryption on the public network. ET SAFE also allows users to monitor network ports and terminate user access by means of packet filter when hacking is detected. In addition, ET SAFE will also monitor network data flow to identify hostile packets, monitor abnormal system movement and utilization.

The e-business system integration business of EC-Tech provides e-business operators with consultation services on website planning, system design, software development and software and hardware integration as well as system implementation.

2.2.5 E-Town

E-Town, which was incorporated on 21st February, 2000, is owned as to 60% by Founder Data and 40% by Panoramic View Group Limited. It aims to participate in a project for the construction and operation of the information technology infrastructure of Dongguan City, Guangdong Province, the PRC. The project is endorsed by the PRC Central Government as a pilot scheme to use information technology to transform Dongguan City into a city supported by computers and the internet. The expected target customers of E-Town include government agencies, enterprises and individuals. E-Town has not commenced its operation as at the Latest Practicable Date.

2.2.6 Founder iASPEC

Founder iASPEC, which was incorporated on 8th February, 2000, is a joint venture internet technology company founded by Founder Data and Iaspec Investments (BVI) Limited (“Iaspec”) and plans to engage in the provision of ASP service in the areas of retail management and supply chain management, etc. It is a 40% owned associated company of Founder Data and a 51% owned subsidiary of Iaspec, with the balance of a 9% shareholding held by F2 Consultant acting as nominee for the trustees of “The Founder iASPEC Employees Benevolent Trust”, the beneficiaries of which are the employees of Founder iASPEC and its subsidiaries.

LETTER FROM FOUNDER

Iaspec, the joint venture partner of Founder iASPEC, is one of the leading internet ASP service providers in the Asian region, and specializes in the provision of e-business solutions, system integration, software development and professional internet services to enterprises and government institutions. Catering for its clients in the fields of industrial product trading, wholesaling and retailing, medicine and healthcare products, real estate management, plotting and document management and control, Iaspec aims to transfer its existing e-business projects into ASP models.

The mission of Founder iASPEC is to secure a leading position in the Asian ASP market and to implement internet technology efficiently by building up core strengths in information technology consultation, system integration and software development. Founder iASPEC has not commenced its operation as at the Latest Practicable Date.

It is anticipated that Founder iASPEC will be responsible for marketing Iaspec's existing ASP services in the PRC, and for expanding such services into other fields of professional applications.

2.2.7 MC.Founder

MC.Founder, which was incorporated on 27th March, 2000, plans to engage in the development of the technology of mobile commerce through mobile telephone network(s) and the manufacture, sales and distribution of products in relation thereto and to carry on all ancillary activities in various regions which include but are not limited to Hong Kong, Taiwan and China. Founder Data holds 40% interest in MC.Founder with the remaining 60% interest held by an independent third party.

3. PROPOSED CHANGES TO MIT BOARD

It is expected that upon Completion, all the existing directors of MIT, except Mr. Yung, Mr. Richard Yung, Jr and the two independent non-executive directors, will resign. It is intended that, upon Completion, the following will be the directors of MIT:

3.1 Non-executive directors

Mr. Richard Chih Shin Yung, aged 65, the current Chairman and Managing Director of MIT, will become the Honorary co-chairman and a non-executive director of MIT. Mr. Yung is a graduate of electrical engineering from the Massachusetts Institute of Technology. He founded the MIT Group in 1975 and has extensive experience in marketing, product design, factory planning and production management in the electronics industry.

Professor Wang Xuan, aged 63, currently the executive director and Chairman of Founder, will be the Honorary co-chairman and a non-executive director of MIT. Professor Wang is a professor of the Peking University and one of the founders of the Founder Group. Professor Wang is also a member of the Science Academy of China, the China Engineering Academy and the Third World Science Academy. He is also

LETTER FROM FOUNDER

a member of the Standing Committee of the Ninth National People's Congress (NPC) and the vice-chairman of NPC Education, Science, Culture and Public Health Committee. He graduated from the Faculty of Mathematics of the Peking University in 1958, and has since been lecturing and carrying out research work at the Peking University. He is currently the director of the Research Institute of Computer Science and Technology at the Peking University.

3.2 Independent non-executive directors

Mr. Richard Lin Yang, aged 71, is the vice-chairman of Chongqing Da Wah Navigation Co. Ltd., PRC, a director of Chongqing Taipan Storage (Petroleum) Ltd., PRC, and Taipan Storage (Petroleum) Pte. Ltd., Singapore and managing director of E-Hsiang Steamship Co. Ltd., Taiwan. He has extensive experience in providing agency, dealer and consultancy services for companies interested in the areas of Taiwan and the PRC.

Mr. Andrew Ying Biu Lee, aged 36, is a Partner of Robertsons, Solicitors and Notaries. Before joining Robertsons Double & Lee in 1990 as an Associate, Mr. Lee served his articleship with Robert W. H. Wang & Co. He was admitted as a Partner in 1992. He is also admitted as a lawyer in England and Wales and Australia. He mainly handles civil litigation cases and specialises in insurance cases.

3.3 Executive directors

Mr. Cheung Shuen Lung, aged 44, currently an executive director and the President of Founder, will become an executive director and the Chairman of MIT. Mr. Cheung is a research fellow of the Enterprise Research Institute at the Peking University and one of the founders of the Founder Group. Mr. Cheung has 19 years of experience in the information technology industry and he will be responsible for the overall management and executive discussions.

Mr. Lei Hon Sang, aged 41, who was recently appointed as an executive director of Founder, will become an executive director and the President of MIT. Mr. Lei graduated from the Department of Computer Technology and Applied Mathematics of the University of Hong Kong in 1983. Mr. Lei joined the Founder Group in May 1999 as the director and president of Beijing Founder Electronics Co., Ltd. (one of the major subsidiary companies of Founder in the PRC). Before joining the Founder Group in May 1999, he worked in the PRC branch office of a renowned international information technology company for 12 years and was the Deputy President and General Manager of information technology product department of the PRC branch. Mr. Lei will be responsible for overall operation and future business development.

Professor Wei Xin, aged 45, is currently an executive director of Founder. Professor Wei graduated from the Peking University with specialisation in the economics of education, educational planning and financing. Professor Wei is currently a professor of the Peking University. He is the executive deputy director of the Institute of University Education Science and the Institute of Educational Economics of the Peking University, and is the vice financial controller of the Peking University. Professor Wei is also a member of the team of expert of the China Education Project undertaken by the World Bank. Professor Wei will be responsible for the finance and human resources function.

LETTER FROM FOUNDER

Professor Zou Wei, aged 36, is the Deputy Chief of the Founder Research and Development Centre and the General Manager of the Internet-related Products Department of the Founder Group. He is an associate professor and a supervisor of post-graduates of the Peking University. Professor Zou joined the Founder Group in 1995 and is responsible for the development of internet-related products. He obtained his master degree in Software Studies from the Institute of Software, Science Academy of China in 1988. Before joining the Founder Group, he was responsible for the software and product development in the Science Academy of China and Oracle.

Mr. Richard Yung, Jr., aged 36, is a son of Mr. Yung. He joined the MIT Group in 1987 after graduating with a Business Administration degree from the University of Southern California. He is currently the managing director of Management Investment & Technology Company Limited and is responsible for the weighing scale business of the MIT Group.

4. FUTURE PLANS AND PROSPECTS

Following Completion, the existing businesses of the Group, including the semi-conductor business (assuming that the Possible Disposal does not materialise) and the weighing scale business will remain in the Group and will be managed by Ricwinco pursuant to the Management Agreement. Besides developing its existing businesses, MIT will also focus on developing the Founder Data Group's businesses in the provision of internet advertising agency services, business-to-business exchange platforms of content and advertisement space trading to the media industry, and e-commerce solutions and development.

Pursuant to the Sale and Purchase Agreement, subject to Completion, Founder has undertaken to MIT that, inter alia, it will not (and none of its present or future subsidiaries or associated companies will) except through the Enlarged Group (except the Yung Wen Group) directly or indirectly undertake, engage in or be otherwise interested in any business including or relating to the design and production of non-media e-commerce software and non-media utility software or the operation of portals and websites on the internet in the PRC. With the assistance of Founder and Yahoo!, it is expected that the high-technology businesses which MIT will acquire under the Acquisition will gradually expand and become more competitive in the future.

5. GENERAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to the Circular.

6. DEALINGS AND HOLDINGS IN THE SHARES

During the six month period immediately preceding the date of the Announcement and up to the Latest Practicable Date, there were no dealings in the Shares by the Vendors and parties acting in concert with them and their respective directors. As at the date of the Announcement and as at the Latest Practicable Date, none of the Vendors and parties acting in concert with them (including Founder Electronics, F2 Consultant and its shareholders and each of the Other Founder Data Shareholders) and (for those parties which are corporations), their respective substantial shareholders and subsidiaries, nor any of their respective associates, held any Shares.

Yours faithfully,
For and on behalf of the Board of
Founder Holdings Limited
Cheung Shuen Lung
Executive Director and President



MANAGEMENT INVESTMENT & TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

9th September, 2000

To the independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS,
WAIVER FROM THE OBLIGATION ARISING UNDER
THE TAKEOVERS CODE
TO MAKE A MANDATORY GENERAL OFFER
AND
SUBSCRIPTION OF NEW SHARES**

We refer to the circular dated 9th September, 2000 (the “Circular”) issued by the Company to the Shareholders of which this letter forms part. Terms used herein should bear the same meanings as those defined in the Circular unless otherwise required.

We have been appointed as members of the Independent Board Committee to advise the independent Shareholders in relation to the Acquisition (including the issue of the Consideration Shares), the Subscriptions (including the issue of the Subscription Shares), the Disposal, the Management Arrangement, the Equity Transfer (including the issue of the Equity Transfer Shares) and the Whitewash Waiver, particulars of which are set out in the Circular. Asia Financial has been appointed as the independent financial adviser to the Independent Board Committee. Details of the advice from Asia Financial, together with the principal factors taken into consideration, are set out in the “LETTER FROM ASIA FINANCIAL” on pages 55 to 107 of the Circular.

We noted the advice of Asia Financial. We are of the view that the terms of the Sale and Purchase Agreement, the Disposal Agreement, the Management Agreement, the Equity Transfer Agreement, the Subscription Agreements and the grant of the Whitewash Waiver (including the issue of the Consideration Shares, the Equity Transfer Shares and the Subscription Shares) are fair and reasonable and are in the interests of the Company so

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

far as the independent Shareholders are concerned. Accordingly, we recommend that you vote at the SGM in favour of the resolutions numbered 1, 3, 4, 5, 6, 7 and 8 as set out in the notice of the SGM to approve the Sale and Purchase Agreement, the Disposal Agreement, the Management Agreement, the Equity Transfer Agreement and the Subscription Agreements (and all related matters) and to approve the grant of the Whitewash Waiver.

We wish to draw the attention of the independent Shareholders to:

- (i) verbal assurances by Yahoo! to the Independent Board Committee that Yahoo! is prepared to further explore other business opportunities with AdTargeting in e-commerce businesses; and
- (ii) verbal assurances by Yahoo! to the Independent Board Committee not to dispose of the Equity Transfer Shares for a period of three months after Completion.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Andrew Ying Biu Lee

Mr. Richard Lin Yang

Independent non-executive directors

LETTER FROM ASIA FINANCIAL



ASIA FINANCIAL CAPITAL
A Member of Asia Financial Group

Asia Financial Capital Limited
12th Floor, Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

9th September, 2000

*To the Independent Board Committee of
Management Investment & Technology (Holdings) Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS, SUBSCRIPTION OF NEW SHARES AND WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the terms of the Acquisition (including the issue of the Consideration Shares), the Equity Transfer (including the issue of the Equity Transfer Shares), the Disposal, the Management Arrangement (including the Possible Disposal), the Subscriptions (including the issue of the Subscription Shares) and the Whitewash Waiver, particulars of which are set out in a circular (the “Circular”) to the Shareholders dated 9th September, 2000 and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Pursuant to the Listing Rules and the Takeovers Code, the Acquisition, the Disposal, the Management Arrangement (including the Possible Disposal) and the Whitewash Waiver (by way of poll) are required to be subject to approval by the independent Shareholders (i.e. Shareholders other than Ricwinco and its associates and parties acting in concert with them) at the SGM.

In formulating our opinion, we have relied on the accuracy of the information, representations and valuations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the directors of the Company (the “Directors”), Sallmanns, BOCI Asia, Founder, the reporting accountants of the Company, the reporting accountants of the Founder Group and Yahoo! regarding the information, representations and valuations contained in the Circular. We have also assumed that all statements of belief and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify relying

LETTER FROM ASIA FINANCIAL

on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Founder Data Group, Datacom, AdTargeting, EC-Media, EC-Tech, Founder iASPEC, E-Town, MC.Founder, Founder, Yahoo! and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS CONSIDERED FOR THE SALE AND PURCHASE AGREEMENT AND THE EQUITY TRANSFER AGREEMENT

In arriving at our recommendation in respect of the respective terms of the Sale and Purchase Agreement and the Equity Transfer Agreement, we have considered the following principal factors:

(a) Rationale for the Sale and Purchase Agreement and the Equity Transfer Agreement

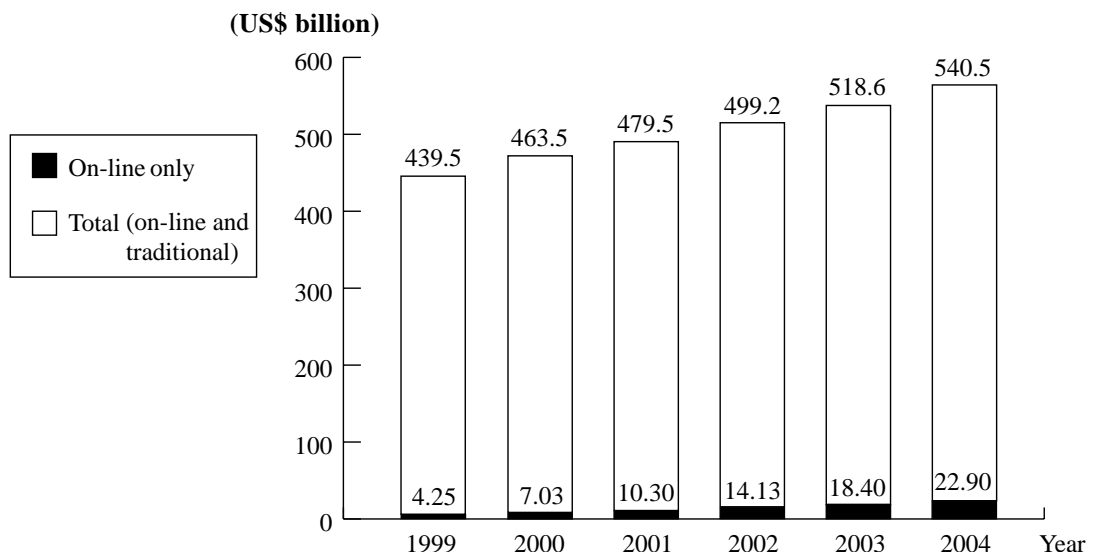
As set out in the Letter from the Board, the Directors consider that the acquisition of the entire interest in the Founder Data Group under the Sale and Purchase Agreement will allow the Company to diversify into the on-line advertising agency business which may present promising prospects to the Company in view of the recent upsurge of e-commerce activities. The Directors further consider that the acquisition of the entire interest in Datacom under the Equity Transfer Agreement will result in Yahoo! directly holding shares in the Company rather than in AdTargeting only and Yahoo!, as one of the world's leading search engines and portals in the internet industry, is prepared to further explore other business opportunities with AdTargeting in e-commerce businesses.

The Founder Data Group and Datacom, via AdTargeting, are engaged in the provision of internet advertising agency service. The Founder Data Group, via EC-Media, is also engaged in the provision of business-to-business platforms for (i) on-line information storage/exchange/enquiry services for information distributing institutes (such as press and publishers) and media, enterprises, hospitals, individuals and other information seekers; and (ii) on-line advertising space exchange services and advertising resources enquiry service for advertisement media owners (such as the media, websites and outdoor advertisement banner owners), advertisers (such as enterprises and individuals) and advertising agents. The Founder Data Group, via EC-Tech, is also engaged in the development of e-business platforms and applications as well as provision of system integration for e-business. Further details of the businesses of the Founder Data Group and Datacom are set out in the Letter from Founder contained in the Circular. The Founder Data Group and Datacom have a 80.1% interest and a 19.9% interest in AdTargeting respectively.

LETTER FROM ASIA FINANCIAL

The ever-growing popularity and use of the internet has led to an increase in on-line advertising and e-commerce transactions within key industries throughout the world. As far as the on-line advertising industry is concerned, worldwide on-line advertising was estimated at a run rate (or an expenditure) of US\$2,000 million (approximately HK\$15,600 million) in 1998 according to a research report published by Merrill Lynch on 8th April, 1999 (representing approximately 0.5% of the total worldwide advertising expenditure of approximately US\$417,400 million (approximately HK\$3,255,720 million) in 1998 according to eMarketer). The worldwide on-line advertising expenditure was projected by Jupiter Communications (a market research firm based in New York, the United States) to surge by approximately seven-fold from approximately US\$4,253 million (approximately HK\$33,173 million) in 1999 (representing approximately 1% of the total estimated worldwide advertising expenditure of approximately US\$439,000 million (approximately HK\$3,424,200 million) in 1999 according to eMarketer (an internet market research firm based in New York, the United States) in August 2000) to US\$22,902 million (approximately HK\$178,636 million) in 2004 (representing approximately 4% of the total projected worldwide advertising expenditure of approximately US\$540,500 million (approximately HK\$4,215,900 million) in 2004 according to eMarketer in August 2000). It is further estimated by the Myers Group (a media research specialist based in New York, the United States) that by 2005, the size of on-line advertising expenditure will surpass that of those counterparts spent on traditional media in the United States (implying that over half of the total advertising expenditure in the United States (as projected to be approximately US\$51,700 million) will be on-line). Separately, it is estimated by IDC (an internet market research firm based in Framingham, the United States) that on-line advertising expenditure in the PRC will grow from US\$7.7 million in 1999 to US\$384 million by 2004. The following chart illustrates the projection of total worldwide advertising expenditure:

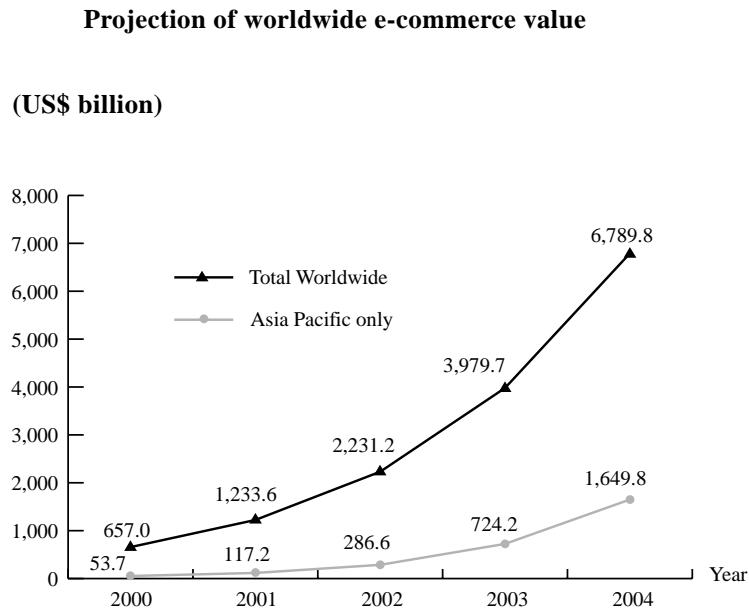
Projection of worldwide advertising expenditure



Source: e Marketer and Jupiter Communications

LETTER FROM ASIA FINANCIAL

As far as the e-commerce transactions are concerned, the total e-commerce transactions in the Asia Pacific region (including Japan) is expected by Forrester Research (an independent market research firm based in Cambridge, the United States) to be approximately US\$53,700 million (approximately HK\$418,860 million) in 2000 (representing approximately 8% of the total e-commerce transactions worldwide of approximately US\$657,000 million (approximately HK\$5,124,600 million) in 2000 according to Forrester Research) and this figure is expected by Forrester Research to grow to approximately US\$1,649,800 million (approximately HK\$12,868,400 million) by 2004 (representing approximately 24% of the total e-commerce transactions worldwide of approximately US\$6,789,800 million (approximately HK\$52,960,440 million) in 2004). The following chart illustrates the projection of total worldwide e-commerce revenue :



Source: Forrester Research

In addition, the following table sets out the e-commerce spending and expected spending in the PRC from 1998 to 2003:

(Figures are in US\$ billion)

1998	1999	2000	2001	2002	2003
0.008	0.043	0.220	0.820	2.411	6.547

Source: IDC

LETTER FROM ASIA FINANCIAL

In light of the projected high growth potential of the cyber industry which evolves in line with the latest technological advancement, we consider that it is commendable that the Directors possess a vision to tap into the on-line advertising and e-commerce arena with a view to maintaining the Company's overall competitiveness (as an enterprise growing in line with the latest development and advancement of the business community at large) and enhancing the Company's long-term prospect.

This is considered to be particularly convincing taking into account the strength and background of the Founder Data Group and Datacom. In particular, AdTargeting is a key member of the Founder Data Group and in which Datacom has a 19.9% interest. We were advised that notwithstanding the existence of keen rivalry among competitors in the field of internet advertising agency service and e-commerce, AdTargeting and other members of the Founder Data Group (as the case may be) have the following competitive edge:

* *Access to advanced technology of Yahoo!*

AdTargeting has been granted by Yahoo! a right to use the advertisement management system of Yahoo! (namely, "Ad Server") in the PRC, which represents the major market in which the Founder Data Group will develop its business. With the licence to use the "Ad Server" technology from Yahoo!, AdTargeting is able to provide website advertisement, broadcasting and management services, including the management of broadcasting time, resources, advertisement targeting and feedback reports.

* *Advertising agent for Yahoo! in the PRC*

AdTargeting has been appointed by Yahoo! as an advertising agent for yahoo.com.cn (in consideration for no agency fee payable by Yahoo! to AdTargeting but for part of advertising revenue generated by AdTargeting to be retained by AdTargeting as agency commission), the portal website of Yahoo! designated for the PRC market, in accordance with the Advertising Sales Representative Agreement. Given the worldwide popularity and recognition of Yahoo! as a search engine and portal in the internet industry and the expected increase in the internet users in the PRC from 16,900,000 in July 2000 (according to CNNIC) to 51,180,000 in 2004 (according to IDC), there is attractive market potential for advertising agency service for yahoo.com.cn. According to a survey report on the influence of websites of the PRC issued by CNNIC in July 2000, yahoo.com.cn was ranked the fifth out of a total of 140 most influential websites of the PRC.

LETTER FROM ASIA FINANCIAL

- * *Successful and exclusive penetration into the target market with solid support from Founder*

By capitalising on the market position of Founder in the media industry in the PRC (which, together with its holding company, was ranked twelve out of the top 100 enterprises in the PRC electronics industry in 2000 in terms of sales), AdTargeting has already established the so-called “Super Media Alliance” (“SMA”) with more than 30 newspapers and publishers in the PRC (which together account for over 11% of the total newspaper issues in the PRC in 1999 according to 中國新聞年鑑, “Newspaper and magazine management” (a monthly magazine published by the Institution of Media, People’s University, the PRC) and the Founder Data Group) to act as their exclusive agents for their web advertisement. We were advised by Founder that these newspapers and publishers in the PRC are obliged to use AdTargeting as their exclusive on-line advertising agent pursuant to the relevant co-operation agreements. With the expected growing number of members in SMA (from 30 in July 2000 to 100 in July 2001 as projected by the management of the Founder Data Group which forms part of the inputs of the relevant revenue projection of the Founder Data Group as elaborated below), AdTargeting will be able to further promote the websites of various SMA members, assisting them to further consolidate their positions as major PRC on-line news portals, thereby further expanding AdTargeting’s advertisement network.

- * *Comprehensive services offered to customers of the media industry*

In addition to the advertising agency service, the Founder Data Group (via EC-Media) with the help of Founder’s experience and expertise in the media industry, is the first company in the PRC to set up and operate business-to-business e-commerce platforms facilitating press content production, storage, exchange (in terms of news, photos and advertisement) among news publishers, media and advertisers. The Founder Data Group (via EC-Tech) also covers the provision of e-commerce solutions and related consulting services and internet security products, with emphasis on e-commerce platform technology.

- * *Solid market demand of trading and exchange of news content in the context of prevailing national policy*

We were advised that it is the present national policy of the PRC Government that internet content providers (“ICPs”), who are not conventional news publishing houses, are not permitted to set up their own reporter teams to gather information. Accordingly, the conventional news publishing houses enjoy an absolute advantage in respect of information sources, particularly in view of the rapid emerge of ICPs in the PRC market which require updated and segmented news contents to meet viewers’ demand. The Founder Data Group (via EC-Media) is thus well positioned to capture the niche of this business-to-business e-commerce market by providing a centralised media storage database and a platform to trade the stored contents among various media companies and ICPs. Based on the relevant PRC legal opinion, we were advised that the business scope of EC-Media does not fall into the category of ICP or internet service provider under the definition of the PRC authorities.

(b) Terms of the Sale and Purchase Agreement and the Equity Transfer Agreement

In order to assess whether the Acquisition and the Equity Transfer have been priced at a reasonable level, we would examine the procedures adopted in arriving at the valuation model.

As the valuation report done by Sallmanns is prepared solely on the businesses of the Founder Data Group and no valuation report is prepared on the businesses and assets of Datacom, our analysis on the terms of the Equity Transfer Agreement can only rely on the assumed attributable value of Datacom's 19.9% interest in AdTargeting based on the valuation of 80.1% interest in AdTargeting.

(i) Valuation

When reviewing the valuation by Sallmanns of the Founder Data Group and the assumed valuation of Datacom, we have considered the possible methodologies in the valuation. We considered that the parameter of price-earnings ratio is not applicable in valuing the Founder Data Group and in the assumed valuation of Datacom given the lack of track record of the Founder Data Group and Datacom and the difficulty for start-up companies such as the Founder Data Group and Datacom to reliably forecast their earnings. We are of the view that the methodology of market capitalisation per user is also not applicable in valuing the Founder Data Group and in the assumed valuation of Datacom due to inadequate market information available on the number of users of comparable companies. The parameter of price-to-book ratio is as well not applicable in valuing the Founder Data Group due to the high growth nature of the internet-related industry which does not necessarily possess significant depreciable assets.

Based on our discussion with Sallmanns and BOCI Asia, we consider that the methodology of price-to-revenue ratio was appropriate for reason that it is a commonly and widely accepted methodology in the investment community for internet related businesses. In particular, each of (i) BOCI Asia and (ii) PricewaterhouseCoopers, the Company's auditors, have reviewed the revenue projection of the Founder Data Group (comprising 80.1% interest in AdTargeting, whilst the remaining 19.9% interest of AdTargeting is held by Datacom) and are of the view that (i) the basis of and (ii) the accounting policies and calculations of the revenue projection of the Founder Data Group for the year ending 30th June, 2001 has respectively been made after due care and careful consideration.

Using the methodology of price-to-revenue ratio, Sallmanns adopted the expected unaudited revenue for the year ending 30th June, 2001 of the Founder Data Group (and Datacom) in the valuation. We understand that the principal source of revenue for the Founder Data Group (and Datacom) are projected to include advertising commission (via AdTargeting), transaction income arising from e-commerce activities (via EC-Media), sales and provision of e-commerce solution and consultancy services (via EC-Tech). The valuation report contained in the Circular stated that the expected unaudited revenue for the year ending 30th June, 2001 of each of AdTargeting, EC-Media and EC-Tech was projected by the management of the Founder Data Group to be approximately

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US\$7.6 million (approximately HK\$59.28 million), US\$1.6 million (approximately HK\$12.48 million) and US\$0.9 million (approximately HK\$7.02 million) respectively. The said revenue projection was made on certain bases and assumptions as prepared by the management of the Founder Group and was reviewed by BOCI Asia and PricewaterhouseCoopers. We have considered (i) the letter dated 9th September, 2000 from PricewaterhouseCoopers relating to the accounting policies and calculations upon which the above projection up to 30th June, 2001 is prepared; and (ii) the letter dated 9th September, 2000 from BOCI Asia opining on the said revenue projection up to 30th June, 2001. We have obtained written confirmation from the Founder Data Group that the actual number of pageviews attained by yahoo.com.cn (upon which the magnitude of the said revenue projection was based) in the first two quarters of 2000 was more than that adopted in the said revenue projection. We are of the opinion that the basis of, and the accounting policies and calculations of the above revenue forecast, for which the directors of Founder are solely responsible, has been made after due, reasonable and careful consideration.

As a general rule for internet businesses, such revenue projection involved estimation of future events and was based on assumptions which may not remain valid for the whole of the period under projection. It is difficult to ascertain how closely the actual revenue to be achieved will correspond to the said projected revenue. Independent Shareholders should note that at present, the Founder Data Group (and Datacom) is either just under the initial phase of launch or is yet to commence full operation. Accordingly, any concrete track record of actual operation and performance of the Founder Data Group (and Datacom) is not available at this stage.

The projected revenue of the Founder Data Group represents four discrete revenue streams to be realised in each of the four upcoming quarters ending 30th June, 2001. In view that the historical price-to-revenue multiples of the comparable companies in the United States were derived from the trailing 12-month historical revenues of such comparable companies (ie. the four most updated quarterly data available as at 17th May, 2000, being the valuation date) for the purpose of valuation by Sallmanns (as elaborated below), and given that the Founder Data Group is in its start-up stage with no historical operation, Sallmanns considers that it is necessary to match and correspond the historical price-to-revenue multiples to a “discounted” version of the said projected revenue of the Founder Data Group for the year ending 30th June, 2001 by way of adjusting for the time value of money factor back to the valuation date of 17th May, 2000. Notwithstanding this discounting approach by Sallmanns may not be commonly found in investment valuations on the basis of price-to-earnings multiple, Sallmanns considers that this approach may represent a more appropriate alternative for the purpose of valuing internet-related companies on the basis of price-to-revenue multiple and given the inability to obtain prospective market data. Independent Shareholders should note that this approach adopted by Sallmanns may represent a limitation to the overall valuation of the Founder Data Group. Under the circumstances, discount rates of 35%, 27% and 26% respectively on the said expected unaudited revenues for the year ending 30th June, 2001 have been adopted to arrive at approximately US\$5.9 million (approximately HK\$46.02 million), US\$1.3 million (approximately

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HK\$10.14 million) and US\$0.75 million (approximately HK\$5.85 million) respectively as at 17th May, 2000 for each of AdTargeting, EC-Media and EC-Tech. We consider that the magnitude of each of the discount rates of 35%, 27% and 26% adopted was consistently derived from the capital asset pricing model using the following formula:

$$\text{Discount rate} = \text{Risk free rate} + \text{Market risk premium} \times \text{Beta} + \text{Company specific risk}$$

The model takes into account a number of factors including the market risk premium and the company specific risk inherent in the business, such as uncertainty risk, liquidity risk, exchange risk, etc. The parameters used in the capital asset pricing model to arrive at the aforesaid three discount rates are summarised as follows:

	Risk free rate	Market risk premium	Beta	Company specific risk
AdTargeting	6%	12%	1.7	8%
EC-Media	6%	12%	1.1	8%
EC-Tech	6%	12%	1.5	2%
Determined with reference to	Yield of the United States government bond	Total return of S&P 500	Given industry nature	Uncertainty risk and liquidity risk

As illustrated, in determining the values of beta (as an input for the capital asset pricing model), Sallmanns had endeavoured to select as much comparable companies in the United States as possible with published beta values available and with regard to the specific industry nature to which each of AdTargeting, EC-Media and EC-Tech belongs.

In addition, independent Shareholders should note that Sallmanns had assigned values of the company specific risk (as an input for the capital asset pricing model) to each of AdTargeting, EC-Media and EC-Tech by way of their assessment of the uncertainty risk and liquidity risk, etc of these start-up companies which had involved subjective judgement and application of their professional expertise and experience. Hence, independent Shareholders should note that different valuers may come up with different assigned values of inputs for the same set of companies and hence different valuations as a whole.

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In deriving the applicable price-to-revenue ratio for the Founder Data Group (and the assumed valuation of Datacom), Sallmanns has made reference to the historical price-to-revenue ratios of comparable companies in the United States which are enlisted in the valuation report contained in the Circular. As a separate exercise, we endeavoured to draw on examples in Hong Kong and noted that there are three possible comparable companies listed in Hong Kong engaging in businesses similar to the Founder Data Group and Datacom, the particulars of which are summarised in the following table:

Listed company	Engaged in	Listing status on
Asian Information Resources (Holdings) Limited	<ul style="list-style-type: none"> • Licensing of on-line customised contents to portals and corporate websites with a focus on Greater China business information and related technical services • Delivery of information technology solutions and enabling technologies to help corporations re-engineering their business processes to cope with the internet age 	GEM of the Stock Exchange
Ocean Information Holdings Limited	<ul style="list-style-type: none"> • On-line advertising network and media buying, which provides comprehensive one-stop internet advertising and marketing solutions to advertisers and web publishers with respect to targeting, media planning and buying, placement, tracking, reporting and billing • Manufacturing and marketing of motherboards, add-on cards, personal computers, power supply units, computer chassis, telecommunication products, and property investment 	Main board of the Stock Exchange
e-Kong Group Limited	<ul style="list-style-type: none"> • Internet advertising network • Internet security and integration services and video-on-demand services • Phone-to-phone voice-over internet protocol services • Internet based insurance broking business • Multimedia internet business • Internet media and marketing company 	Main board of the Stock Exchange

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Based on the market data available, the historical price-to-revenue ratio of the first Hong Kong listed company tabulated above was approximately 30 as at 17th May, 2000 and approximately 24 as at the Latest Practicable Date. However, since the second Hong Kong listed company tabulated above has other industrial manufacturing operations apart from on-line advertising agency and had just diversified into such internet businesses since early 2000, it is inappropriate to be used as a comparable. By a similar token, since the third Hong Kong listed company tabulated above has just diversified from a manufacturing concern into internet businesses since 1999, coupled with the fact that over 98% of the turnover of this third listed company for the year ended 31st December, 1999 was contributed from the sale of animated film, it is also not appropriate to be used as a comparable. Given that there are limited number of market comparables in Hong Kong (possibly only one available) which are insufficient for the purpose of determining three recognised and distinct market multiples for each of AdTargeting, EC-Media and EC-Tech respectively, we agree with Sallmanns that it is more appropriate to use a wider pool of comparable companies available in the United States.

As set out in the valuation report by Sallmanns contained in the Circular, the historical price-to-revenue ratio of the three lists of comparable companies in the United States for each of AdTargeting, EC-Media and EC-Tech on 17th May, 2000 was approximately 11.5, 3.7 and 25.3 respectively. In selecting the comparable companies in the United States, we understand that Sallmanns had considered a number of advertising, information trading and software companies. Sallmanns has chosen the comparable companies in the United States on a consistent basis with strict regard to their similarity to the industry nature and business model of each of AdTargeting, EC-Media and EC-Tech. In view of dozens of comparable companies selected (over 30 in total) and in view of the specific industry nature to which these comparable companies belong, we consider that Sallmanns had endeavoured that such comparable companies be reasonably and not selectively chosen with respect to the nature of the three industries respectively. Although a few of comparable companies selected (e.g. Global Network, Go Online Networks and InterTrust Tech) had relatively insignificant levels of revenue recorded, we were advised by Sallmanns that they had endeavoured to select the same with strict regard to the business or industry nature, whereas the size of their revenue per share would not be of a primary concern. In addition, as a further prudent measure, we noted that Sallmanns had adopted the parameter of median over that of mean for these comparable companies to mitigate any distortion by outlier data as elaborated below. Assuming the said few three comparable companies had been excluded for the purpose of analysis, the historical price-to-revenue ratio of the three lists of comparable companies in the United States for each of AdTargeting, EC-Media and EC-Tech would had been approximately 7.9, 3.7 and 25.3 on 17th May, 2000.

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We noted that the respective price-to-revenue ratio applied to the valuation of each of AdTargeting, EC-Media and EC-Tech by Sallmanns was approximately 9, 3 and 20, which individually represents the same 20% discount to the respective median number of the range of the historical price-to-revenue ratios of each of the three lists of comparable companies in the United States of 11.5, 3.7 and 25.3 on 17th May, 2000 respectively as provided in the valuation report. The said 20% discount was applied to account for the difference between the US companies and the PRC companies to reflect the difference in popularity and versatility in the utilisation and application of information technology in various commercial fields (including advertising) in the US market and in the PRC market. We were advised by Sallmanns that the assigning of 20% level of discount has involved their subjective judgement and application of their professional expertise and experience. Therefore, independent Shareholders should note that different valuers may therefore come up with different assigned discounts and hence different valuations as a whole.

It should be noted that, Sallmanns has adopted the historical price-to-revenue multiples of the comparable companies because Sallmanns was unable to obtain publicly available, objective and reliable forecast revenues of these companies beyond their latest published revenues as referred to in its valuation report in the Circular, which, if available, would otherwise have enabled the gauging of comparison with the historical price-to-revenue multiples of these companies on a prospective revenue basis. Notwithstanding Sallmanns considers that this approach may represent a more appropriate alternative for the purpose of valuing internet-related companies on the basis of price-to-revenue multiple given limited available information, independent Shareholders should note that this approach may represent a limitation to the overall valuation of the Founder Data Group.

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As a further prudent measure, Sallmanns has adopted the parameter of median over that of mean. Generally speaking, the parameter of median number has an advantage over the parameter of mean in terms of prudence because the result will be less susceptible to distortion by outlier data (which are either extreme high or extreme low in value in statistical terms). The following table demonstrates the difference between the median number and mean of each of the range of three lists of comparable companies:

*Historical price-revenue ratios
of comparable companies of*

	<i>Median</i>	<i>Mean</i>
AdTargeting	11.5	180.0
EC-Media	3.7	38.1
EC-Tech	19.7	53.8

As illustrated, the median number of each of the range of three lists of comparable companies was substantially lower than their corresponding mean number.

In arriving at the valuation of the Founder Data Group (and the assumed valuation of Datacom), we noted that Sallmanns adopted and relied on several key assumptions underlying the valuation of the Founder Data Group as set out in the valuation report in this Circular, which are duplicated as follows:

- In order to realise the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For the valuation exercise, Sallmanns assumed that all proposed facilities and equipment will work properly and will be sufficient for future expansion.
- There will be no material change in the existing political, legal, technological, fiscal or economic condition which adversely affect the business of the Founder Data Group.
- Operational and contractual terms bound by contracts and agreements will be honoured.
- The competitive advantages and disadvantages of the Founder Data Group do not change significantly during the operating period.

In addition, we understand that Sallmanns adopted and relied on the projected number of pageviews to be attained by yahoo.com.cn (upon which the magnitude of the revenue projection of the Founder Data Group for the year ending 30th June, 2001, which was reviewed by BOCI Asia and PricewaterhouseCoopers, was based). Given that these assumptions were in line with market practice commonly adopted in valuations done by professional valuers, we concur with Sallmanns

that such assumptions were fair and reasonable for the purpose of valuations by professional valuers. However, we consider that, and independent Shareholders are advised to note that, the valuation of the Founder Data Group by Sallmanns was based on generally accepted valuation procedures and practices that rely exclusively on the use of numerous assumptions and the consideration of uncertainties, not all of which can be easily quantified or ascertained. For example, notwithstanding that it is natural to assume that the operational and contractual terms bound by contracts and agreements will be honoured and that all proposed facilities and equipment will work properly and be sufficient for future expansion barring unforeseen circumstances, it is difficult to ascertain that there will be no material change in the existing political, legal, technological, fiscal or economic conditions adversely affecting the business and the competitive position of the Founder Data Group, which are by nature beyond the control of the Founder Data Group and Sallmanns.

As set out in the Letter from Founder contained in this Circular, other than AdTargeting, EC-Media and EC-Tech, the Founder Data Group consists of three additional companies, namely, Founder iASPEC, E-Town and MC.Founder. After taking into account their preliminary start-up status, no value is attributable to these three additional companies in the course of professional valuation by Sallmanns. The rationale behind this is that the valuation methodology of Sallmanns is principally based on the revenue projection for the year ending 30th June, 2001. Given the estimation by the management of the Founder Data Group that Founder iASPEC, E-Town and MC.Founder would be in a preliminary start-up status during that period, we were advised that, and we concurred with the view that, Founder iASPEC, E-Town and MC.Founder would have an immaterial impact on the professional valuation of the Founder Data Group based on the methodology of price-to-revenue ratio and based on the revenue projection provided by the management of the Founder Group. Nonetheless, we wish to draw independent Shareholders' attention to the fact that there is no assurance as to the viability of these three companies, given that these companies are at their start-up phase.

(ii) *Consideration*

As set out in the Letter from the Board, the respective consideration of HK\$439,560,000 and HK\$93,240,000 under the Acquisition and the Equity Transfer were determined on the basis of arm's length negotiations with reference to the future prospect and the potential of the business of the Founder Data Group and AdTargeting respectively.

The Sale and Purchase Agreement refers to the acquisition by the Company from the Vendors of the Founder Data Group comprising 80.1% of AdTargeting, 100% of EC-Media, 100% of EC-Tech, 60% of E-Town, 40% of Founder iASPEC and 40% of MC.Founder. The Equity Transfer Agreement refers to the acquisition by the Company from Yahoo! of 100% of Datacom comprising 19.9% of AdTargeting.

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According to the valuation of the Founder Data Group by Sallmanns, the estimate of the valuation of a 100% interest of the Founder Data Group was approximately US\$62 million (equivalent to HK\$483.6 million) as at 17th May, 2000. On such basis, the consideration of HK\$439,560,000 under the Acquisition represents a discount of approximately 9.1%.

On the basis that the valuation by Sallmanns of the 80.1% interest in AdTargeting (being part of the Founder Data Group) was approximately US\$43 million (equivalent to approximately HK\$335 million) as at 17th May, 2000, the assumed valuation of a 100% interest of Datacom (the sole asset of which is 19.9% interest in AdTargeting) would be approximately US\$10.68 million (equivalent to approximately HK\$83.33 million) as at 17th May, 2000. On such basis, the consideration of HK\$93,240,000 under the Equity Transfer represents a premium of approximately 11.9%.

On the assumption that the market data outstanding as at the Latest Practicable Date (instead of the valuation date of 17th May, 2000 as adopted by Sallmanns) is used, the respective historical price-to-revenue ratios of each of the three lists of comparable companies for AdTargeting, EC-Media and EC-Tech would become lower and would be approximately 7.96, 3.09 and 12.29 respectively. On such basis, the revised price-to-revenue ratios (after accounting for the same 20% discount as aforesaid) applicable to the revised valuation of each of AdTargeting, EC-Media and EC-Tech would also become lower and would be approximately 6.36, 2.47 and 9.83 respectively. Based on such revised price-to-revenue ratios and the same revenue projection of each of AdTargeting, EC-Media and EC-Tech for the year ending 30th June, 2001, and using the same parameter of price-to-revenue multiple as the valuation methodology, the revised valuation of the Founder Data Group and the assumed revised valuation of Datacom as at the Latest Practicable Date would be approximately US\$41 million (approximately HK\$319.8 million) and US\$7.5 million (approximately HK\$58.5 million) respectively, both being lower than the valuation by Sallmanns on 17th May, 2000 of US\$62 million (approximately HK\$483.6 million) and US\$10.68 million (approximately HK\$83.3 million) respectively.

On the other hand, we have obtained written confirmation from the Founder Data Group that there were no inter-company transactions nor inter-company balances between each of AdTargeting, EC-Media, EC-Tech, Founder iASPEC, E-Town and MC.Founder in the past. We have also obtained written confirmation from the Founder Data Group that no inter-company transactions nor inter-company balances are expected between each of AdTargeting, EC-Media, EC-Tech, Founder iASPEC, E-Town and MC.Founder in the upcoming twelve months.

Taking into account

- (a) the methodology of valuation adopted by Sallmanns in valuing the Founder Data Group which was considered acceptable;

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- (b) the opinion given by BOCI Asia on the projected revenue of the Founder Data Group which has been prepared after due and careful consideration;
- (c) the opinion given by PricewaterhouseCoopers on the projected revenue of the Founder Data Group in respect of the accounting policies and calculations;
- (d) the consistent discount of 20% applied to the price-to-revenue ratios used for the valuation of the Founder Data Group by Sallmanns of 9, 3 and 16 respectively relative to the median number of those prevailing for the three tranches of comparable companies in the market to account for the difference between the US companies and the PRC companies (the magnitude of which is considered to be in line with available market precedent);
- (e) the consideration of HK\$439,560,000 under the Acquisition was determined on the basis of arm's length negotiations with reference to the future prospect and the potential of the business of the Founder Data Group; and
- (f) that as aforesaid, based on market comparable data as at the Latest Practicable Date, the revised valuation of the Founder Data Group would be lower than that valued professionally by Sallmanns as at the valuation date of 17th May, 2000. Using such lower valuation of the Founder Data Group as revised by the market comparable data as at the Latest Practicable Date, the level of the consideration for the Acquisition of HK\$439,360,000 would be on the high side and accordingly would not be favourable to the interests of the Shareholders. However, it was the valuation level of the Founder Data Group on 17th May, 2000 to which the Directors made reference in arriving at the consideration for the Acquisition and on which date the Sale and Purchase Agreement was entered into between the relevant parties. In addition, we would like to draw the attention to independent Shareholders that it cannot be ruled out that the parties to the Sale and Purchase Agreement may be unwilling to renegotiate and enter into a new agreement for the purpose of the Acquisition at all after the date of 17th May, 2000. Independent Shareholders should also note that in the absence of any alternative deals available to the Company, the Acquisition represents the only available opportunity to the Company to partnering with such prominent players such as Founder and Yahoo! in the media industry and the internet industry. Independent Shareholders should further note that tapping into the on-line advertising and e-commerce arena by way of the Acquisition can potentially enhance the overall competitiveness and longer-term prospect of the Group,

we consider that the consideration under the Acquisition, which represents a discount of approximately 9.1% relative to the valuation of the Founder Data Group by Sallmanns as at 17th May, 2000, is fair and acceptable so far as the Sale and Purchase Agreement entered into on 17th May, 2000 is concerned.

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As far as the Equity Transfer Agreement is concerned, taking into account

- (a) the methodology of valuation adopted by Sallmanns in the assumed valuation of Datacom which was considered acceptable;
- (b) the opinion given by BOCI Asia on the projected revenue of the Founder Data Group (comprising 80.1% of AdTargeting, whilst 19.9% of AdTargeting is held by Datacom) which has been prepared after due and careful consideration;
- (c) the opinion given by PricewaterhouseCoopers on the projected revenue of the Founder Data Group in respect of the accounting policies and calculations;
- (d) the consistent discount of 20% applied to the price-to-revenue ratio used for the assumed valuation of Datacom by Sallmanns relative to the median number of those prevailing for comparable companies in the market to account for the difference between the US companies and the PRC companies (the magnitude of which is considered to be in line with available market precedent); and
- (e) the consideration of HK\$93,240,000 under the Equity Transfer was determined on the basis of arm's length negotiations with reference to the future prospect and the potential of the business of AdTargeting,

we consider that the consideration under the Equity Transfer, which represents a premium of approximately 11.9% over the assumed valuation of Datacom by Sallmanns, is not fair and reasonable, taking into particular account that the 19.9% interest of AdTargeting to be acquired from Yahoo! under the Equity Transfer represents only a minority stake as compared to the 80.1% interest of the same AdTargeting to be acquired from Founder under the Acquisition. Shareholders should note, however, that as a result of the completion of the Equity Transfer Agreement, Yahoo! will become a substantial shareholder in the Company (holding approximately 11.35% interest therein amidst a verbal commitment of three-month moratorium as elaborated below).

(ii) *Issue of the Consideration Shares and the Equity Transfer Shares*

The respective consideration of HK\$439,560,000 and HK\$93,240,000 under the Acquisition and the Equity Transfer is to be satisfied by way of the issue and allotment of the Consideration Shares and the Equity Transfer Shares. The issue price of each of the Consideration Shares and the Equity Transfer Shares shall be identical at HK\$1.00 per Share.

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The highest and the lowest prices of the Shares traded on the Stock Exchange from 1st July, 1999 to the Latest Practicable Date (the “Period”) were as follows:

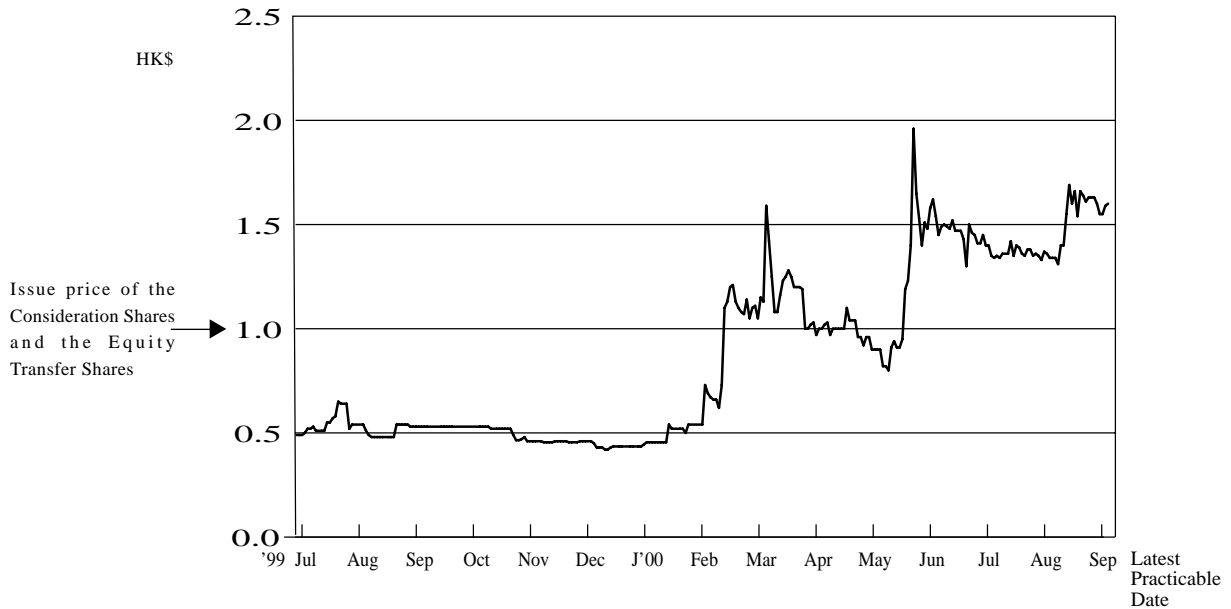
Month	Highest Traded Price (HK\$)	Lowest Traded Price (HK\$)
1999		
July	0.700	0.480
August	0.570	0.480
September	0.530	0.530
October	0.530	0.460
November	0.480	0.420
December	0.435	0.430
2000		
January	1.400	0.495
February	1.780	1.000
March	1.300	0.960
April	1.000	0.800
May (2nd May, 2000 to 4th May, 2000)	1.700	0.990
(25th May, 2000 to 31st May, 2000)	2.600	1.390
June	1.700	1.290
July	1.430	1.330
August	1.700	1.300
September (Up to and including the Latest Practicable Date)	1.720	1.630

Source: Infocast

During the Period, the Shares were traded on the Stock Exchange within a range of a high of HK\$2.600 on 25th May, 2000 to a low of HK\$0.420 on 29th November, 1999.

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The chart below illustrates the historical performance of the closing prices of the Shares during the Period:



Source: Infocast

In essence, the issue price of HK\$1.00 per Consideration Share and per Equity Transfer Share represents:

- a discount of approximately 28.6% to the closing price of HK\$1.40 per Share as quoted on the Stock Exchange on 4th May, 2000, being the last trading day immediately preceding the date of the Announcement;
- a discount of approximately 0.6% to the average closing price of HK\$1.006 per Share as quoted on the Stock Exchange from 18th April, 2000 to 4th May, 2000, being the last ten trading days immediately preceding the date of the Announcement;
- a discount of approximately 39.8% to the closing price of HK\$1.66 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 37.9% to the average closing price of HK\$1.61 per Share as quoted on the Stock Exchange from 22nd August, 2000 to 4th September, 2000, being the last ten trading days ended on the Latest Practicable Date;

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- **a discount of approximately 2.9% to the audited consolidated net tangible asset value of the Company as at 31st December, 1999 of approximately HK\$1.030 per Share; and**
- a premium of approximately 2.56% over the pro forma unaudited adjusted consolidated net tangible asset value of the Company of approximately HK\$0.975 per Share after adjusting for the unaudited consolidated net loss attributable to the Shareholders for the four months ended 30th April, 2000 (i.e. before the Acquisition, the Equity Transfer, the Disposal, the Management Arrangement, the Subscriptions and the Placing) as set out in Appendix IV of the Circular.

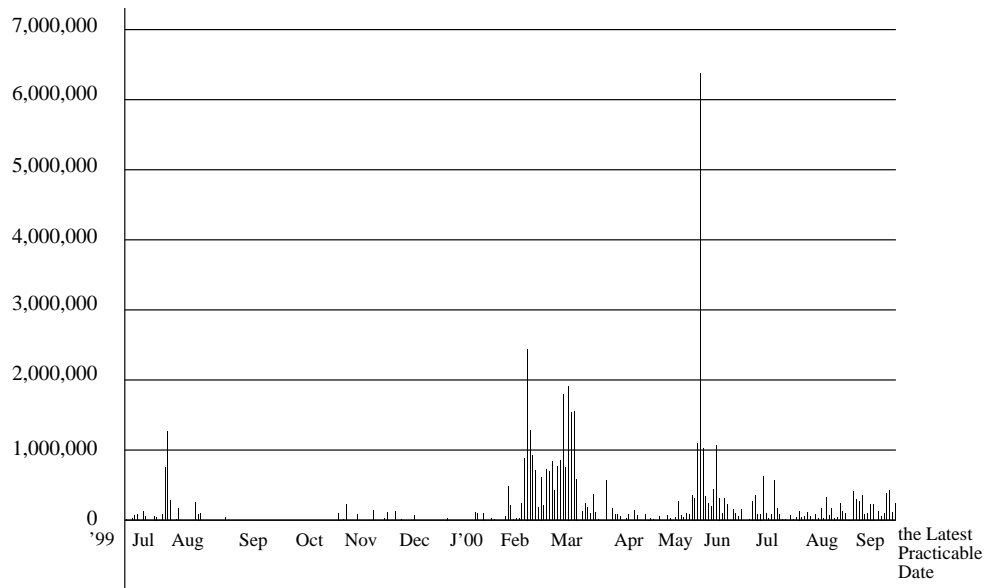
As illustrated in the chart of the closing Share price above, the closing Share price was within the range of HK\$0.42 to HK\$0.70 per Share during the first half of the Period. In January and February of 2000, the closing Share price commenced to surge drastically. We noted that from January 2000 to May 2000, the directors of the Company issued, on six occasions, public statements stating that they were not aware of any reasons for the increases in the price of the Shares apart from the announcement made on 20th January, 2000 that the Company's public float has been below the prescribed minimum level of 25% and the Company has undertaken to restore its public float by 31st March, 2000. We further noted that it was announced on 13th March, 2000 that a total of 35,520,000 Shares, representing approximately 20% of the then issued share capital of the Company, were acquired at the price of HK\$1.20 per Share by Chinney Alliance Group Limited from Chinney Investments, Limited (both being companies incorporated in Bermuda the shares of both of which are listed on the Stock Exchange). Save as aforesaid, there were no announcements made as regards Paragraph 2 of the Listing Rules. The level of the closing Share price during the Period peaked on 25th May, 2000, being the first trading day on which the trading of the Shares resumed following the publication of the Announcement.

To summarise the position, we noted that the Shares were traded below HK\$1.00 per Share during the Period prior to 28th January, 2000. Subsequent to 28th January, 2000, the Shares were traded constantly at a price above HK\$1.00 per Share most of the time. Independent Shareholders should note that the Share price fluctuation subsequent to 28th January, 2000 may not be ruled out to have been caused by impacts arising from the Company's announcements on its public float issues and the aforesaid transfer of a total of 35,520,000 Shares between Chinney Alliance Group Limited and Chinney Investments, Limited (which represented an internal corporate reorganisation of investments within the Chinney Group). However, by April 2000, the aforesaid public float issues had been solved by the Company and the corporate reorganisation within the Chinney Group had been completed. On this basis, it may not be ruled out that the sustaining of the price level above HK\$1.00 per Share after April 2000 may have been caused by other impacts such as general market speculation on possible takeover of second-liner companies listed on the Stock Exchange, market perception of the launch of the transactions contemplated in the Announcement as a whole, and market anticipation of the possible completion thereof (completion of which would, amongst other

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things, result in Founder, Yahoo! and Sunevision becoming new shareholders of the Company). Accordingly, the surge in price level after 28th January, 2000 may not be representative of the usual performance of the Shares purely based on historical fundamentals which reflected a loss-making performance of the Group for the four months ended 30th April, 2000 but reflected no awareness of the aforesaid public float issues, the corporate reorganisation within the Chinney Group and the transactions contemplated in the Announcement as a whole (completion of which will result in, amongst other things, Founder, Yahoo! and Sunevision becoming new shareholders of the Company). On such basis, when evaluating the issue price of HK\$1.00 per Consideration Share and HK\$1.00 per Equity Transfer Share, independent Shareholders should not wholly ignore the Share performance prior to 28th January, 2000, during which any impacts from the aforesaid public float issues, the corporate reorganisation within the Chinney Group and the transactions contemplated in the Announcement as a whole (completion of which will result in, amongst other things, Founder, Yahoo! and Sunevision becoming new shareholders of the Company) had yet been imposed.

The chart below illustrates the historical trading volume of the Shares during the Period:



Source: Infocast

As illustrated in the chart of the trading volume of the Shares above, the turnover of the Shares remained low during the first half of the Period. In line with the surge of the closing Share price, the turnover of the Shares also increased significantly in February 2000. The level of the trading volume of the Shares during the Period peaked on 25th May, 2000, being the first trading day on which the trading of the Shares resumed following the publication of the Announcement.

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Taking into account

- (i) the level of price-earnings multiple (being approximately 10.0) of the Company as implied by the issue price of HK\$1.00 per Consideration Share and HK\$1.00 per Equity Share (based on the net profit attributable to Shareholders of HK\$18,040,000 for the year ended 31st December, 1999 and a total of 181,202,040 Shares outstanding as at the Latest Practicable Date) when compared with the median price-earnings multiple as estimated at approximately 8.7 for all the companies listed on the Stock Exchange which are categorised by Hong Kong Economics Times into the electrical and electronic sector) as at 17th May, 2000, being the date of the Sale and Purchase Agreement and the Equity Transfer Agreement);
- (ii) the discount of approximately 2.9% to the audited consolidated net tangible asset value of the Company as at 31st December, 1999 of approximately HK\$1.030 per Share;
- (iii) the premium of approximately 2.56% over the pro forma unaudited adjusted consolidated net tangible asset value of the Company of approximately HK\$0.975 per Share after adjusting for the unaudited consolidated net loss attributable to the Shareholders for the four months ended 30th April, 2000 (i.e. before the Acquisition, the Equity Transfer, the Disposal, the Management Arrangement, the Subscriptions and the Placing) as set out in Appendix IV to the Circular;
- (iv) each of the Vendors (except F2 Consultant) has undertaken to the Company that it will not, save with the prior consent of the Company, transfer, exchange or otherwise dispose of, grant or create any encumbrance in respect of any of the Consideration Shares prior to the date falling six months after Completion;
- (v) verbal assurances by Yahoo! to the Independent Board Committee not to dispose of the Equity Transfer Shares for a period of three months after Completion (which, although in the form of verbal instead of written, is considered by the Independent Board Committee to be legally binding and adequate to safeguard the Group's interests);
- (vi) the issue price of the Consideration Shares and the Equity Transfer Shares was determined based on arms' length negotiations between the Company and the Vendors or Yahoo! with particular reference to
 - (a) the 10-day average closing price of the Shares ended the last trading day immediately preceding the date of the Announcement of HK\$1.006 per Share;
 - (b) the audited consolidated net asset value per Share of the Company as at 31st December, 1998 and 31st December, 1999 of approximately HK\$0.949 per Share and HK\$1.051 per Share respectively;

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- (c) the bulk size of the Consideration Shares and the Equity Transfer Shares;
- (d) the historical illiquid turnover of the Shares as illustrated above (in particular, no trading at all was recorded in the whole month of September 1999); and
- (vii) the surge in Share price level to over the issue price of HK\$1.00 per Consideration Share and per Equity Transfer Share after 28th January, 2000 may not be representative of the usual performance of the Shares purely based on historical fundamentals which reflected a loss-making performance of the Group for the four months ended 30th April, 2000 but reflected no impacts from the aforesaid public float issues, the corporate reorganisation within the Chinney Group and the transactions contemplated in the Announcement as a whole (completion of which will result in, amongst other things, Founder, Yahoo! and Sunevision becoming new shareholders of the Company).

we consider that the issue price of the Consideration Shares and the Equity Transfer Shares is fair and reasonable so far as the Sale and Purchase Agreement and the Equity Transfer Agreement respectively are concerned.

(iii) Non-competition undertaking

Pursuant to the Sale and Purchase Agreement, Founder undertakes to the Company that it will not (and none of its present or future subsidiaries or associated companies will) except through the MIT Group (except the Yung Wen Group) directly or indirectly undertake, engage in or be otherwise interested in any business including or relating to the design and production of non-media e-commerce software and non-media utility software or the operations of portals and websites on the internet in the PRC subject to Completion.

We noted that Founder is a company listed on the Stock Exchange principally engaged in software development, system integration and other information technology related business primarily in the PRC. For the sake of safeguarding the interests of the Company and its Shareholders (other than Founder following Completion), we consider that it is vital and necessary for Founder to undertake not to compete directly or indirectly with the new business to be injected into and carried out by the Enlarged Group after the Acquisition and the Equity Transfer.

(iv) Conditions precedent

Pursuant to the Sale and Purchase Agreement, Completion is conditional upon, inter alia, completion to the satisfaction of the Company of its due diligence review of the corporate status, the business and the financial conditions of the Founder Data Group.

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Pursuant to the Equity Transfer Agreement, completion of the Equity Transfer Agreement is conditional upon Completion. Accordingly, the Equity Transfer Agreement is effectively structured in such a way to be also conditional on the completion to the satisfaction of the Company of its due diligence review of the corporate status, the business and the financial conditions of the Founder Data Group (which comprises 80.1% interest in AdTargeting, the remaining 19.9% interest of which is held by Datacom).

As the operations of the Founder Data Group mainly take place in the PRC, we consider that it is a prudent measure to require the receipt of due approval by the PRC authorities on the establishment and operations of the Founder Data Group as the key conditions precedent to the Sale and Purchase Agreement (and, effectively, the Equity Transfer Agreement).

Independent Shareholders should note that whether the Company is satisfied with the relevant due diligence review of the Founder Data Group involves the commercial judgment of the Company. Whether or not further approval is given by the PRC authorities on the establishment and operations of the Founder Data Group, the Company may still decide that it is satisfied with the relevant due diligence review. If the Company is so satisfied, and the other conditions precedent to the Sale and Purchase Agreement can be fulfilled, that agreement may proceed to Completion. If the Company is not so satisfied, not all conditions precedent to the Sale and Purchase Agreement can be fulfilled (unless the parties to that agreement mutually agree to waive the same), the Acquisition will lapse, and in such case, the Equity Transfer will also lapse. Currently, the Company has not received PRC legal advice that further approval is required from the PRC authorities on the establishment and operations of the Founder Data Group.

As set out in the Letter from the Board, it is currently estimated that the date for the fulfilment of all conditions precedent to the Sale and Purchase Agreement and the Equity Transfer Agreement to be 30th September, 2000 (or such later date as may be agreed between the parties concerned).

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(c) Financial effects on the Group

(i) Net assets and net asset value per Share

With reference to Appendix IV of the Circular, the effect on the pro forma adjusted unaudited consolidated net tangible assets of the Group immediately after the Acquisition and the Equity Transfer is summarised as follows:

	<i>HK\$'000</i>	<i>Per Share HK\$</i>
Pro forma unaudited adjusted consolidated net tangible assets of the Group before the Acquisition and the Equity Transfer (and before the Disposal, the Management Arrangement, the Subscriptions and the Placing) (<i>Note 1</i>)	176,639	0.975
<i>Add:</i>		
Issue and allotment of the Consideration Shares	439,560	
<i>Less:</i>		
Estimated goodwill (immediately written-off to reserve) arising from the Acquisition	(420,761)	
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately after the Acquisition but before the Equity Transfer (and before the Disposal, the Management Arrangement, the Subscriptions and the Placing) (<i>Note 2</i>)	195,438	0.315
<i>Add:</i>		
Issue and allotment of the Equity Transfer Shares	93,240	
<i>Less:</i>		
Estimated goodwill (immediately written-off to reserve) arising from the Equity Transfer	(92,982)	
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately after the Acquisition and the Equity Transfer but before the Disposal, the Management Arrangement, the Subscriptions and the Placing (<i>Note 3</i>)	195,696	0.274

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Notes:

1. Based on 181,202,040 Shares in issue as at the Latest Practicable Date.
2. Based on 620,762,040 Shares in issue immediately after the Acquisition but before the Equity Transfer, the Disposal, the Management Arrangement, the Subscriptions and the Placing.
3. Based on 714,002,040 Shares in issue immediately after the Acquisition and the Equity Transfer but before the Disposal, the Management Arrangement, the Subscriptions and the Placing.

As illustrated in the above summary, the pro forma unaudited adjusted consolidated net tangible assets of the Group would increase by approximately 11% from approximately HK\$176,639,000 to approximately HK\$195,438,000 after the Acquisition but before the Equity Transfer. The pro forma unaudited adjusted consolidated net tangible assets of the Group would increase slightly further at a similar level of approximately HK\$195,696,000 after both the Acquisition and the Equity Transfer.

As set out in the Appendix IV of the Circular, the unaudited net asset value of the Founder Data Group and Datacom as at 31st May, 2000 were approximately HK\$18,799,000 and HK\$258,000 respectively. It can be demonstrated that the majority of the increase in the net tangible assets of the Group attributable to the issue of the Consideration Shares and the Equity Transfer Shares will be subsequently offset by the immediate write-off of goodwill arising from the Acquisition and the Equity Transfer to the reserve of the Group in accordance with the prevailing accounting policy of the Group.

On a per Share basis, the pro forma adjusted unaudited consolidated net tangible asset value per Share would drop by approximately 68% immediately after the Acquisition but before the Equity Transfer. The pro forma adjusted unaudited consolidated net tangible asset value per Share would drop further by approximately 13% immediately after the Acquisition and the Equity Transfer. Such decline is primarily attributable to the issue of bulk volume of the Consideration Shares and the Equity Transfer Shares which cannot be matched coherently with a corresponding increase in the net asset value of the Company due to the immediate write-off of goodwill arising from the Acquisition and the Equity Transfer.

Immediately after the Acquisition and the Equity Transfer, the Company would become a company engaged in the internet and e-commerce businesses. In view that the parameter of price-to-book ratio, as aforesaid, is not strictly applicable in valuing the internet-related industry which does not necessarily possess significant depreciable assets and is of high growth nature, the parameter of book value of assets should play a less important role in internet-related company such as the Company after the Acquisition and the Equity Transfer.

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For the purpose of analysis, on the assumption that the Subscriptions (as described further below) and the Placing are completed, there will be a total increase in net assets of the Company of approximately HK\$104.4 million. On such assumption, the pro forma unaudited adjusted consolidated net tangible assets of the Group immediately after the Acquisition, the Equity Transfer, the Disposal, the Subscriptions and the Placing would increase to approximately HK\$300.1 million, representing HK\$0.366 per Share.

(ii) *Gearing*

Based on (a) the total outstanding indebtedness of the Group of approximately HK\$55.9 million as at 30th June, 2000 and (b) the pro forma unaudited adjusted consolidated net tangible assets of the Group as at 30th April, 2000 (i.e. before the Acquisition, the Equity Transfer, the Disposal, the Possible Disposal, the Subscriptions and the Placing) of approximately HK\$176.6 million (as set out in Appendix IV of the Circular), the gearing ratio of the Group would be approximately 31.7%.

Should completion of the Acquisition and the Equity Transfer take place (assuming, for the purpose of analysis, without those of the Disposal, the Possible Disposal, the Subscriptions and the Placing), the gearing ratio of the Group would be reduced to approximately (1) 28.6% and (2) 28.6% based on (a) the total outstanding indebtedness of the Group of approximately HK\$55.9 million as at 30th June, 2000 and (b) the pro forma unaudited adjusted consolidated net tangible assets of the Group (1) after the Acquisition of approximately HK\$195.4 million and (2) after both the Acquisition and the Equity Transfer of approximately HK\$195.7 million. **Accordingly, notwithstanding the absence of an actual reduction in the total outstanding indebtedness of the Group, it can be demonstrated that by way of enlarging the capital base of the Company, the Acquisition and the Equity Transfer will have a marginally positive effect on the gearing position of the Group.**

(iii) *Liquidity*

As set out in the Letter from the Board, the respective consideration of HK\$439,560,000 and HK\$93,240,000 under the Acquisition and the Equity Transfer are to be satisfied by way of the issue and allotment of the Consideration Shares and the Equity Transfer Shares respectively. It can be envisaged that settlement of the consideration for the Acquisition and the Equity Transfer by way of equity instrument has the benefit of preserving the cash resources of the Company.

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Based on the unaudited financial information as at 30th June, 2000, the total cash and bank balance of the Founder Data Group and Datacom were approximately HK\$13 million. On the assumption that the Subscriptions and the Placing are completed, there will be a total expected cash inflow of approximately HK\$104.4 million. On the assumption that the Disposal Agreement (as described further below) is completed, there will be a total expected series of cash inflow of approximately HK\$63 million receivable in phases ending nine months upon completion of the Disposal Agreement. On the assumption that the Possible Disposal (as described further below) is completed, there will be a cash inflow of HK\$56.2 million. In aggregate, there is a total expected cash inflow of approximately HK\$223.6 million arising from completion of the Subscriptions, the Placing, the Disposal and the Possible Disposal.

PricewaterhouseCoopers is of the opinion that, based on its review, so far as the accounting policies and calculations are concerned, the working capital projection of the Enlarged Group has been properly compiled on the basis of the assumptions made by the directors of the Company and Founder. Based on, and subject to the realisation of, the working capital projection of the Founder Data Group provided by its management, we were informed by Founder and the Company that, and shared with the view of BOCI Asia that, in view of that the sum of HK\$167.4 million (being the sum of HK\$104.4 million and HK\$63 million as aforesaid) will be made available to the Enlarged Group from completion of the Subscriptions, the Placing and the Disposal and barring unforeseen circumstances, there will be sufficient working capital for the operations of the Founder Data Group and Datacom for no sooner than the 12 months ending 30th June, 2001 even on a worst-case assumption that none of the members of the Founder Data Group and Datacom will generate any revenues at all. Based on the working capital projection of the Founder Data Group provided by its management, the cash outflow of the Founder Data Group and the attributable share of cash outflow by Datacom for the year ending 30th June, 2001 was projected to be approximately US\$14.45 million (approximately HK\$112.7 million) (of which approximately US\$9.02 million (approximately HK\$70.4 million) belongs to operating costs and the balance of approximately US\$5.43 million (approximately HK\$42.4 million) belongs to capital expenditure which would not recur for the next two years after 30th June, 2001) assuming no revenues at all will be generated. Based on the same working capital projection of the Founder Data Group provided by its management, the attributable cash outflow per annum of Datacom for the year ending 30th June, 2001 was projected to be approximately US\$0.72 million (approximately HK\$5.6 million) assuming no revenues at all will be generated. We were advised by Founder that for the year ending 30th June, 2001, it is prudently assumed that Founder Data, Founder iASPEC, E-Town and MC.Founder will not have any revenue; instead, a total cash outflow of US\$5.5 million (approximately HK\$42.9 million) thereof (of which approximately US\$2.4 million (approximately HK\$18.7 million) belongs to operating costs and the balance of approximately US\$3.1 million (approximately HK\$24.2 million) belongs to capital expenditure which would not recur) was included in the working capital projection.

Based on the above, as far as the businesses of the Founder Data Group and Datacom after the Acquisition and the Equity Transfer are concerned, we were advised by the Company that there is no capital commitment on the part of the Company on the future operations of the Founder Data Group or Datacom.

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As set out in Appendix IV of the Circular, a working capital statement has been prepared by Founder and the Directors confirming the Enlarged Group (including the Founder Data Group and Datacom) will have sufficient working capital to meet its present requirement. Based on the information provided by Founder and the Directors, and taking into account the cash flow projections of the Enlarged Group having been reviewed by the auditors of the Company and BOCI Asia, we consider that, barring unforeseen circumstances and on the assumption that all cash inflow will be in place as stated, that there will be sufficient working capital for the Enlarged Group for the upcoming year ending 30th June, 2001.

(iv) *Earnings*

As set out in the 1999 annual report of the Company, it is the accounting policy of the Company to write-off goodwill arising from acquisition of entities direct to reserves in the year of acquisition. On this basis, there will be no amortisation of goodwill after Completion which may affect the future earnings of the Company.

As the Founder Data Group and Datacom are at present in its infancy stage of development, there is an inherent possibility that the relevant business projection of each of AdTargeting, EC-Media and EC-Tech will turn out to be different from the actual revenue to be achieved since anticipated events frequently do not occur as expected and the variation may or may not be material due to market changes. Independent Shareholders should note that it is difficult at this stage to quantify the overall financial effect of the Acquisition and the Equity Transfer on the earnings of the Group (subject to uncertainties and contingencies of the future industry environment (including the dynamics of competitive forces in the market, and the fast-changing pace and development of the market due to continuous innovations in available product ranges and pricing mechanism)).

On the other hand, as a result of the issue of 439,560,000 Consideration Shares and 93,240,000 Equity Transfer Shares upon Completion, the basic earnings per Share for the financial year ended 31st December, 1999 would be reduced from approximately HK\$0.1016 per Share as set out in the annual report 1999 of the Company (when only 177,602,040 Shares were in issue during the year 1999) to approximately HK\$0.0253 per Share based on 714,002,040 Shares immediately after the Acquisition and the Equity Transfer alone.

Taking into account

- (a) the considerable reduction to the extent of approximately 68% of the pro forma unaudited adjusted consolidated net tangible asset value per Share as a result of the Acquisition;
- (b) the reduction to the extent of a further approximately 13% of the pro forma unaudited adjusted consolidated net tangible asset value per Share as a result of the Equity Transfer;

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- (c) the sufficiency of working capital of the Founder Data Group and Datacom ((i) up to 24 months ending 30th June, 2002 on a worst-case assumption that no revenues will be generated at all; and (ii) up to 36 months ending 30th June, 2003 (being the date up to which the management's projection was made) on a normal assumption that relevant revenues will be generated in accordance with management's projection) is based on assumptions of completion of the Subscriptions and the Placing which is subject to inherent uncertainty; and
- (d) the uncertainty on the future earnings of the Founder Data Group and Datacom (despite their high growth potential in terms of market size),

it can be envisaged that the overall financial effects of the Acquisition and the Equity Transfer on the Group are not favourable as a whole.

(d) Dilution effect on shareholding

Under the Acquisition and the Equity Transfer, the Company will issue an aggregate of 532,800,000 new Shares to the Vendors and Yahoo!, representing (i) approximately 294.0% of the existing issued number of Shares; or (ii) approximately 74.6% of the issued share capital of the Company of 714,002,040 Shares as enlarged by the issue of both the Consideration Shares and the Equity Transfer Shares ; or (iii) approximately 64.9% of the Enlarged Issued Share Capital (i.e. 820,562,040 Shares).

As at the Latest Practicable Date, public Shareholders (representing all the existing Shareholders other than Ricwinco and Chinney Alliance Group Limited) held 48,002,040 Shares. On the above basis, **the aggregate interests of the same pool of public Shareholders in the Company (representing all the existing Shareholders other than Ricwinco and Chinney Alliance Group Limited) will be diluted from approximately 26.5% to approximately (1) 7.7% and (2) 6.7% immediately upon completion of (1) the Acquisition and (2) both the Acquisition and the Equity Transfer (but before the Disposal, the Management Arrangement, the Subscriptions and the Placing) respectively.**

Independent Shareholders should note that there will be a dilution to the extent of up to approximately 74.7% in the shareholding of the existing Shareholders.

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RECOMMENDATION FOR THE SALE AND PURCHASE AGREEMENT AND THE EQUITY TRANSFER AGREEMENT

Having considered the various factors above, we are of the view that the terms of the Sale and Purchase Agreement and the Equity Transfer Agreement would not be particularly favourable to the independent Shareholders to the extent that:

- (i) there would be adverse financial effects as a result of the Acquisition and the Equity Transfer (as elaborated above under section headed “Financial effects on the Group” as set out on pages 79 to 84 of the Circular);
- (ii) there would be significant dilution effect on the shareholdings of the Shareholders as a result of the Acquisition and the Equity Transfer (as elaborated above under section headed “Dilution effect on shareholding” as set out on page 84 of the Circular); and
- (iii) the consideration payable under the Equity Transfer Agreement represented a premium of 11.9% over the assumed valuation of Datacom by Sallmanns involving a minority of 19.9% in AdTargeting.

For the purpose of comparison, we reviewed a number of transactions recently announced in the market in relation to the acquisition of internet-related companies by other listed companies on the Stock Exchange. We note from such market transactions that they generally suffer from the same adverse financial effect as those impacting the Acquisition and the Equity Transfer. For instance, the net asset value per share of these listed companies would suffer from a significant decline of up to approximately 74.2%. Similarly, the earnings prospects and liquidity position of these listed companies may be subject to uncertainty after the acquisition of relevant internet-related targets. In addition, the shareholders of these listed companies would similarly suffer from a dilution on their shareholdings ranging from approximately 3% to 85% upon issue of the relevant consideration shares of these listed companies to acquire internet-related targets.

Based on the above comparison, we are of the view that the adverse financial impacts (including the shareholding dilution effect) arising as a result of the Sale and Purchase Agreement and the Equity Transfer Agreement are in line with the precedents of similar acquisition of internet-related targets by listed companies in the market is concerned. This has, indeed, become a prevailing phenomenon in listed companies intending to diversify into information technology business which is used to command a different valuation basis from that of the traditional businesses.

We wish to draw the attention of the independent Shareholders to that there are merits in the Acquisition and the Equity Transfer which independent Shareholders should not discount in deciding on their voting on the Sale and Purchase Agreement and the Equity Transfer Agreement. Notwithstanding that it is impossible for us to quantify the possible long-term benefits which may or may not materialise in the immediate term, we would,

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on balance, advise the Independent Board Committee to recommend the independent Shareholders to vote for the Sale and Purchase Agreement if:—

- (i) the independent Shareholders consider that the adverse financial impacts of the Sale and Purchase Agreement on their interests as Shareholders can be mitigated by the potential benefit resulting from the rationale of the Sale and Purchase Agreement and/or the Equity Transfer Agreement whereby the Group will be able to capitalize on the strength of Founder and Yahoo! in the e-commerce and media industry in the PRC;
- (ii) the independent Shareholders concur with the Board's view that the Company should tap the high growth potential of the cyber industry in order to maintain the Group's overall competitiveness and to enhance the Company's long-term prospect; and
- (iii) the independent Shareholders believe the opportunity of having Founder and/or Yahoo! as new Shareholder will enable the Company to enhance its corporate image and future prospects in the internet industry.

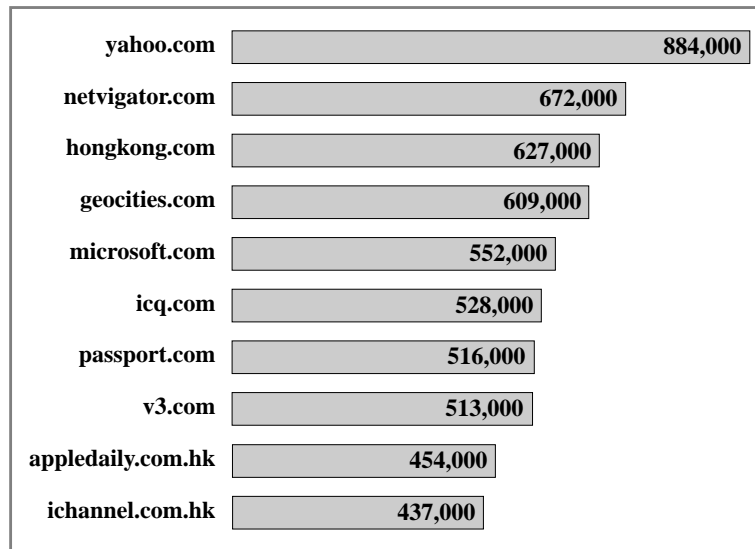
On the other hand, as far as the premium of 11.9% represented by the consideration payable under the Equity Transfer over the assumed valuation of Datacom by Sallmanns is concerned, we were advised by the Directors that in the course of arriving at such level of consideration upon signing the Equity Transfer Agreement, the relevant parties had taken into account:

- (i) verbal assurances by Yahoo! to the Independent Board Committee that Yahoo! is prepared to further explore other business opportunities with AdTargeting in e-commerce businesses; and
- (ii) verbal assurances by Yahoo! to the Independent Board Committee not to dispose of the Equity Transfer Shares for a period of three months after Completion.

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On the sole basis of the quantitative information available to us, we would advise the Independent Board Committee that the terms of the Equity Transfer Agreement are not fair and reasonable to the extent of the aforesaid premium represented by the consideration payable under the Equity Transfer over the assumed valuation of Datacom by Sallmanns and the aforesaid financial effects and shareholding dilution, in particular, where reference is made to the Sale and Purchase Agreement. However, taking into account the leading position of Yahoo! in the global internet industry, it is natural and understandable that the Company has to render a higher premium in order that it can associate with a premier partner so that its internet businesses will have a more assuring chance of success. According to iamasia, an interactive audience measurement asia survey, which was acclaimed as the first scientific study of web use in Hong Kong, yahoo.com was accredited the favourite website by home internet users in Hong Kong in July 2000 (being the first and only available survey result). The following chart summarises the results of this survey:

Top ten websites for home internet users



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According to another survey report on the influence of websites of the PRC issued by CNNIC in July 2000, yahoo.com.cn was ranked the fifth out of a total of 140 most influential websites of the PRC. The following chart summarises the results of this survey:

Ranking	Website
1	sina.com.cn
2	sohu.com
3	163.com
4	263.net
5	yahoo.com.cn
6	163.net
7	21cn.com
8	china.com
9	chinaren.com
10	yesky.com

In view of the valuable opportunity, if not non-recurring at all, of Yahoo! being willing to further explore other business developments with AdTargeting in e-commerce businesses in the Asian markets, and taking into account the verbal assurances of Yahoo! to the Independent Board Committee not to dispose of the Equity Transfer Shares for a period of three months after Completion (representing a period not less than that committed by all other placees under the Placing) we would, on balance, recommend the Independent Board Committee to recommend the independent Shareholders to vote for the Equity Transfer Agreement.

We wish to point out to the attention of independent Shareholders that in the absence of any alternative deals available to the Company (which can potentially enhance the overall competitiveness and longer-term prospect of the Group), the Acquisition and Equity Transfer represent the only available opportunity to the Company to partnering with such prominent players such as Founder and Yahoo! in the media industry and the internet industry respectively. The two agreements represent an important step for the Company if it is to pursue further development in these areas in the longer-term. There is no assurance that similar opportunities will be available to the Company in the near term (which can potentially enhance the overall competitiveness and longer-term prospect of the Group).

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Independent Shareholders should note that subsequent to the publication of the Announcement (including the contemplated transactions of the Acquisition and the Equity Transfer), the market Share price had been sustained in the range of around HK\$1.29 to HK\$2.60 per Share, which represented a considerable premium over the average market Share price of approximately HK\$1.006 per Share for the last ten trading days immediately preceding the date of the Announcement. Independent Shareholders should be aware that such level of market Share price may or may not sustain in future, and independent Shareholders should bear in mind that the prevailing level of market Share price may have already reflected the impact arising from the transactions contemplated in the Announcement as a whole.

PRINCIPAL FACTORS CONSIDERED FOR THE DISPOSAL AGREEMENT

In arriving at our recommendation in respect of the terms of the Disposal Agreement, we have considered the following principal factors:

(a) Rationale for the Disposal

As set out in the Letter from the Board, the Company (via its principal subsidiaries, namely, (i) the MITI Group, (ii) the Yung Wen Group and (iii) the MITC Group) is principally engaged in the design, manufacturing and marketing of consumer and industrial electronics products. We concur with the Directors that the Disposal allows the Company to divest its design, manufacturing and distribution of lighting product and inductor business (via the MITI Group), thereby concentrating its resources on developing other new areas of business (which can potentially enhance the overall competitiveness and longer-term prospect of the Group).

As far as the performance of the MITI Group is concerned, we were advised by the Company that notwithstanding a satisfactory level of sales were achieved by the MITI Group's lighting products in the recent years, the MITI Group has been recording losses in 1997 and 1998. As set out in the Letter from the Board, for each of the respective year ended 31st December, 1997, 1998 and 1999, the unaudited pro forma combined profit/(loss) of the MITI Group amounted to approximately HK\$(11,406,000), HK\$(13,724,000) and HK\$20,171,000 (the majority of which comprises an exceptional profit of approximately HK\$19.4 million arising from the incentive arrangement with a third party purchaser of 50% interest in the MITI Group's lighting business as disclosed in the circular of the Company dated 1st April, 1996 and the annual report 1999 of the Company) respectively. Based on the unaudited management accounts of the MITI Group, the pro forma unaudited net loss of the MITI Group for the four months ended 30th April, 2000 amounted to approximately HK\$0.15 million.

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We were advised by the Company that notwithstanding the slight improvement in the operating result of the MITI Group in 1999, the MITI Group's business has been suffering from the reliance on a single customer for its export sales and a relatively unattractive level of profit margin for its PRC sales. As advised by the Company, the gross margin for the PRC sales of the MITI Group is around 10%. After deducting selling and marketing expenses and administrative expenses, the PRC sales in fact had the history of recording a net loss.

As advised by the Company, the turnaround of the results of the MITI Group in 1999 was mainly attributable to the unexpected increase in export sales of the MITI Group's lighting products since October 1999. The trend of the increase in export sales lasted for around five months up to the end of February 2000. Since then, monthly sales volume dropped back to a lower level which represents a long-term average for the MITI Group.

In light of the consecutive loss-making track record of over HK\$10 million incurred by the MITI Group in 1997 and 1998 amidst the marginal level of operating profit of approximately HK\$846,000 (excluding exceptional profit) achieved by the MITI Group in 1999 on the above basis, coupled with the intention of the Company to concentrate its resources on developing other areas of business especially taking into account its new development and focus to be followed after completion of the Disposal Agreement, it is reasonable that the Directors put forward the Disposal taking into account all other transactions under contemplation by the Company as a whole.

(b) Terms of the Disposal Agreement

As set out in the Letter from the Board, the consideration receivable by the Company for the Disposal shall be the sum of the audited net asset value of the MITI Group and the total amount of the debt due from the MITI Group to the Company as at completion of the Disposal Agreement. This consideration shall be paid in cash by four instalments, being HK\$12 million to be paid upon completion of the Disposal Agreement, with the balance to be paid by three equal non-interest bearing instalments every three months from the date of completion of the Disposal Agreement (which actual amount shall be determined no later than 90 days from completion of the Disposal Agreement based on an audited balance sheet of the MITI Group).

On the basis that the consideration receivable by the Company under the Disposal shall be at cost (on an actual dollar-to-dollar basis) as estimated at approximately HK\$63 million and shall be subject to audit, and coupled with the presence of the consecutive historical loss-making track record of the MITI Group from 1997 to 1998, we consider that the level of the consideration receivable by the Company for the Disposal to be fair and reasonable.

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In addition, taking into account other terms of the Disposal Agreement (as regards certain settlement arrangement stipulated for the benefit of the Company) that:

- (i) the Outstanding Consideration Payments shall be secured by a legal charge over all the issued shares of MITI to be executed by Ricwinco in favour of the Company;
- (ii) the source of finance of Ricwinco for the Outstanding Consideration Payments is to be secured further by the Deposited Shares under the Escrow Agreement; and
- (iii) Ricwinco is entitled to pay the balance of the consideration (or any part thereof) earlier than the relevant instalment due date, thereby offering an opportunity for the Company to realise the Outstanding Consideration Payments in cash on an earlier basis,

we consider that the Disposal Agreement was entered into on arm's length negotiation between the parties thereto and the terms of the Disposal are fair and reasonable so far as the independent Shareholders are concerned.

(c) Financial effects of the Disposal

(i) Earnings

Given that the consideration receivable by the Company under the Disposal shall be, on an actual dollar-to-dollar basis at cost, the sum of the net asset value of the MITI Group and the debt due from the MITI Group to the Company as at completion of the Disposal (which amount shall be subject to audit), the Company is not expected to suffer from any exceptional loss on the Disposal.

On the assumption that the MITI Group had been disposed of by the Company and based on the unaudited pro forma combined operating profit of HK\$846,000 (excluding the aforesaid exceptional profit of approximately HK\$19.4 million) achieved by the MITI Group in 1999, the consolidated net loss attributable to Shareholders for the year ended 31st December, 1999 of approximately HK\$1,360,000 (excluding the aforesaid exceptional profit of approximately HK\$19.4 million) would, on a pro forma basis, be worsened by the said sum of HK\$846,000 to approximately HK\$2,206,000. Notwithstanding this, based on the consecutive loss-making track record of over HK\$10 million incurred by the MITI Group in 1997 and 1998, and on the same assumption that the MITI Group had been disposed of by the Company, the consolidated net loss attributable to Shareholders for the year ended 31st December, 1999 of approximately HK\$1,360,000 (excluding the aforesaid exceptional profit of approximately HK\$19.4 million) would, on a pro forma basis, be restored to a positive profit of not less than HK\$8,640,000 (by an increment not less than the said sum of HK\$10 million).

(ii) Gearing

Based on (i) the total outstanding indebtedness of the Group of approximately HK\$55.9 million as at 30th June, 2000 and (ii) the pro forma unaudited adjusted consolidated net tangible assets of the Group as at 30th April, 2000 (i.e. before the Acquisition, the Equity Transfer, the Disposal, the Possible Disposal, the Subscriptions and the Placing) of about HK\$176.6 million (as set out in Appendix IV of the Circular), the gearing ratio of the Group was approximately 31.7%.

Should completion of the Disposal take place (assuming, for the purpose of analysis, without those of the Acquisition, the Equity Transfer, the Possible Disposal, the Subscriptions and the Placing), the Group would turn to a net cash position based on (i) the total outstanding net cash position of the Group (on a net debt basis) excluding the MITI Group of approximately HK\$7.1 million as at 30th June, 2000 (given a total cash inflow of approximately HK\$63 million) and (ii) the same pro forma unaudited adjusted consolidated net tangible assets of the Group after the Disposal alone of approximately HK\$176.6 million. Accordingly, it can be demonstrated that the Disposal would have a positive and favourable impact on the gearing position of the Group (by way of reducing the total indebtedness of the Group).

(iii) Liquidity

Based on the unaudited pro forma accounts of the MITI Group as at 30th April, 2000, the cash and bank balance of the MITI Group was approximately HK\$280,000 as at 30th April, 2000.

As set out in the Letter from the Board, sales proceeds from the Disposal in the form of cash were estimated at a total of approximately HK\$63 million (receivable on an instalment basis until the ninth month from the date of completion of the Disposal Agreement) based on the unaudited pro forma combined accounts of the MITI Group as at 30th April, 2000. Out of the sales proceeds from the Disposal, as to HK\$4 million will be mainly used to develop the internet and e-commerce businesses of the Enlarged Group and any balance remaining will be used as general working capital of the Group.

To be specific, the cashflow position of the Group will be improved under the Disposal by way of:

- (i) a bullet cash inflow of HK\$12 million on the date of completion of the Disposal Agreement, which is expected to be on or around 30th September, 2000; and
- (ii) subsequently, three equal instalments of cash inflow (of an amount to be determined subject to the audit of the MITI Group) receivable on a quarterly basis commencing from the third month from the date of completion of the Disposal Agreement.

RECOMMENDATION FOR THE DISPOSAL AGREEMENT

Having considered the various factors above, we consider that the terms of the Disposal Agreement are fair and reasonable so far as the independent Shareholders are concerned and recommend the Independent Board Committee to recommend the independent Shareholders to vote for the Disposal Agreement.

It is, however, worth to note that as one of the conditions precedent for the Disposal Agreement is completion of the Sale and Purchase Agreement, if the independent Shareholders decide to vote against the Sale and Purchase Agreement, it would be pointless for the independent Shareholders to vote for the Disposal Agreement.

PRINCIPAL FACTORS CONSIDERED FOR THE MANAGEMENT AGREEMENT

In arriving at our recommendation in respect of the terms of the Management Agreement, we have considered the following principal factors:

(a) Rationale for the Management Agreement

As set out in the Letter from the Board, among the key operating subsidiaries of the Company, the Yung Wen Group is principally engaged in the manufacturing and distribution of semi-conductor products such as switching diodes, zener diodes, small signal transistors and rectifiers, whereas the MITC Group is principally engaged in the design, manufacturing and distribution of weighing scales.

Pursuant to the Management Agreement, Ricwinco (being the existing controlling shareholder of the Company which is beneficially wholly-owned by Mr. Yung) will be appointed as manager for a period of three years after Completion to be responsible for the management and conduct of the Group's remaining semi-conductor businesses and weighing scale businesses.

In the context of the contemplated disposal of the MITI Group (which designs, manufactures and distributes lighting products and inductors) by the Company under the Disposal, coupled with the contemplated change in the controlling shareholder of the Company after the Acquisition, the Equity Transfer, the Subscriptions and the Placing, we consider that the Management Agreement allows the Company to retain the expertise in the operation of the remaining businesses of semi-conductor products (conducted by the Yung Wen Group) and weighing scales (conducted by the MITC Group).

(b) Terms of the Management Agreement

(i) Profit guarantees

Under the Management Agreement, for a period of three years after Completion, Ricwinco is required to manage, and to provide profit guarantees on, the Yung Wen Group and the MITC Group in favour of the Company for no receipt of any management fee or other remuneration in whatever form.

In connection with the profit guarantees, Ricwinco undertakes to the Company that the audited profit after taxation and minority interests of the Yung Wen Group and the MITC Group for each of the financial years (or part thereof) from commencement of the term of management shall not respectively be less than an amount equal to 6% of the Yung Wen Opening Net Worth and the MITC Opening Net Worth (or part thereof on a time apportioned basis if so applicable).

As far as the performance of the Yung Wen Group is concerned, for each of the respective year ended 31st December, 1997, 1998 and 1999, the unaudited pro forma combined profit/(loss) of the Yung Wen Group amounted to approximately HK\$2,436,000, HK\$(31,111,000) and HK\$(2,454,000) respectively. As further set out in the annual report 1999 of the Company, the demand for the Yung Wen Group's products such as zener diodes, switching diodes and transistors increased rapidly in 1999. The Yung Wen Group had successfully marketed its products to electronic companies such as Sharp, Aiwa, Philips and Samsung in Japan, Korea and the PRC. In light of the anticipated rapid expansion of the telecommunication industry, the Yung Wen Group is of the view that the demand for its semi-conductor products remains strong in 2000 and have planned to further expand its monthly production capacity in 2000.

As far as the performance of the MITC Group is concerned, for each of the respective year ended 31st December, 1997, 1998 and 1999, the unaudited pro forma combined profit/(loss) of the MITC Group amounted to approximately HK\$1,487,000, HK\$(1,445,000) and HK\$322,000 respectively. As further set out in the annual report 1999 of the Company, the overall demand for the weighing scale products of the MITC Group remained steady in 1999, with encouraging market response registered for the MITC Group's new bathroom scales using LCD display and lithium battery. The MITC Group had also secured additional OEM business for personal care products and high voltage power supply products, which will lead to additional contribution to this division in 2000. For future expansion, the MITC Group is developing a new electronic health care product for consumer market use.

LETTER FROM ASIA FINANCIAL

In light of the historical lackluster performance of the Yung Wen Group and the MITC Group in the past few years (amidst records of actual losses incurred from 1998 to 1999 for the Yung Wen Group and in 1998 for the MITC Group respectively), we consider that it is in the financial interest of the Company to be guaranteed a minimum rate of return on the equity value of the remaining businesses of semi-conductor products (conducted by the Yung Wen Group) and weighing scales (conducted by the MITC Group) for the benefit of the Company's future profitability, particularly taking into further account that:

- in return for its entitlement to, and rights under, such profit guarantees, the Company has no obligation to compensate Ricwinco by way of any salary or management fee or other remuneration. In other words, Ricwinco derives no benefit from its management obligations under the Management Agreement;
- the minimum return level of 6% per annum as guaranteed is comparable to the prevailing interest rate earned on time deposits (of a size equivalent to the Yung Wen Opening Net Worth and the MITC Opening Net Worth) being placed in financial institutions in Hong Kong;
- the amount of any loss to be recorded by the Yung Wen Group and/or the MITC Group will be covered under the profit guarantees by forming as part of the profit shortfall;
- the payment of the profit guarantees is to be secured by the Deposited Shares under the Escrow Agreement; and
- the fulfilment of the profit guarantees will be subject to scrutiny by the auditors of the Company and the independent non-executive Directors.

(ii) *The Possible Disposal*

Under the Possible Disposal which forms part of the Management Agreement, the Company is entitled to sell the remaining businesses of semi-conductor products (conducted by the Yung Wen Group) to Ricwinco, in the event that this remaining business segment fails to deliver a satisfactory return to the Company (as represented by the audited profit after taxation and minority interests being below 15% of the Yung Wen Opening Net Worth for any of the financial years ending 31st December, 2000, 2001 and 2002). The consideration receivable by the Company from the Possible Disposal shall be the sum of the Yung Wen Opening Net Worth plus the indebtedness due to the Company by the Yung Wen Group as at completion of the Possible Disposal in cash.

LETTER FROM ASIA FINANCIAL

On the basis that the consideration receivable by the Company under the Possible Disposal shall be, on an actual dollar-to-dollar basis at cost, the sum of the Yung Wen Opening Net Worth and the indebtedness due to the Company by the Yung Wen Group as at completion of the Possible Disposal which sum shall be subject to audit (as in the same case of the Disposal), and coupled with the presence of the consecutive historical loss-making track record of the Yung Wen Group from 1998 to 1999, we consider that the level of the consideration receivable by the Company under the Possible Disposal to be fair and reasonable.

In view of the contemplated strategy of the Company to diversify into the internet-related business by way of the Acquisition and the Equity Transfer, we concur with the Directors' view that the Possible Disposal allows the Company to further concentrate its resources in developing other areas of business subject to the actual results of the future operating performance of the subject business segment and that the terms of the Possible Disposal are fair and reasonable so far as the independent Shareholders are concerned, especially taking into account that:

- the threshold return level of 15% on the Yung Wen Opening Net Worth represented the target return level for the Yung Wen Group;
- that Ricwinco's capability of fulfilling the financial resources requirement to pay the relevant consideration has been construed as one of the conditions precedent to the Possible Disposal;
- Ricwinco's undertaking as to the payment of the consideration for the Possible Disposal is to be secured by the Deposited Shares under the Escrow Agreement; and
- the terms of the Possible Disposal were determined at arm's length negotiations between the parties to the Management Agreement.

(c) Financial effects of the Management Agreement

(i) Earnings

As far as the aforesaid profit guarantees are concerned, irrespective of whether the actual operating results of the Yung Wen Group and the MITC Group will be at a loss or not for the upcoming three financial years, it is guaranteed that at least a positive sum of approximately HK\$7.08 million per annum would be contributed to the consolidated net profit after taxation and minority interests of the Company for the financial years ending 31st December, 2000, 2001 and 2002. Such positive sum is derived on the basis of the unaudited pro forma accounts of the Yung Wen Group and the MITC Group as at 30th April, 2000 which indicate the Yung Wen Opening Net Worth and the MITC Opening Net Worth to be approximately HK\$56 million and HK\$62 million respectively and on the assumption that the Possible Disposal has not taken place during the said period. In return for the Company's entitlement to such profit guarantees, it will not be at any expense of the Company to compensate the profit guarantor in whatever form.

As far as the Possible Disposal is concerned, the Company is not expected to suffer from any exceptional loss on the Possible Disposal, given

- that the consideration receivable by the Company shall be, on an actual dollar-to-dollar basis at cost, the sum of the Yung Wen Opening Net Worth (the level of which is intended to be identical to that outstanding as at completion of the Possible Disposal as described below) and the indebtedness due to the Company by the Yung Wen Group as at completion of the Possible Disposal which sum shall be subject to audit (as in the same case of the Disposal); and
- the intended dividend policy of the Yung Wen Group (which is wholly-owned by the Company as the sole shareholder) requiring that any profit after taxation and minority interests to be achieved by the Yung Wen Group (being guaranteed or otherwise) for the upcoming three years or the period up to completion of the Possible Disposal (whichever is the earlier) shall be fully distributed by the Yung Wen Group to and for the benefit of the Company (with an effect to maintain the carrying value of the consolidated net asset value of the Yung Wen Group as at completion of the Possible Disposal to stay at the level of the Yung Wen Opening Net Worth).

Based on the consecutive loss-making track record of between HK\$(31,111,000) and HK\$(2,454,000) incurred by the Yung Wen Group from 1998 to 1999, the audited consolidated net profit attributable to Shareholders for the year ended 31st December, 1999 of approximately HK\$18,040,000 would be increased, on a pro forma basis, to a level of between approximately HK\$49,151,000 and HK\$20,494,000 (by not less than the said sum of between HK\$(31,111,000) and HK\$(2,454,000)).

(ii) Gearing

Based on (i) the total outstanding indebtedness of the Group of approximately HK\$55.9 million as at 30th June, 2000 and (ii) the pro forma unaudited adjusted consolidated net tangible assets of the Group as at 30th April, 2000 (i.e. before the Acquisition, the Equity Transfer, the Disposal, the Possible Disposal, the Subscriptions and the Placing) of about HK\$176.6 million (as set out in Appendix IV of the Circular), the gearing ratio of the Group was approximately 31.7%.

Should completion of the Possible Disposal take place (assuming, for the purpose of analysis, without those of the Acquisition, the Equity Transfer, the Disposal, the Subscriptions and the Placing), the Group would turn to net cash position based on (i) the total outstanding net cash position of the Group (on a net debt basis) excluding the Yung Wen Group of approximately HK\$51.8 million as at 30th June, 2000 (given a total cash inflow of approximately HK\$62.4 million) and (ii) the same pro forma unaudited adjusted consolidated net tangible assets of the Group after the Possible Disposal alone of approximately HK\$176.6 million. Accordingly, it can be demonstrated that the Possible Disposal would have a positive and favourable effect on the gearing position of the Group (by way of reducing the total indebtedness of the Group).

(iii) Liquidity

Based on the unaudited pro forma accounts of the Yung Wen Group as at 30th April, 2000, the cash and bank balance of the Yung Wen Group as at 30th April, 2000 was approximately HK\$20,774,000, where as the cash sales proceeds from the Possible Disposal were estimated at approximately HK\$56.2 million. As set out in the Letter from the Board, out of such sales proceeds from the Possible Disposal, as to approximately HK\$19 million will be used mainly to develop the internet and e-commerce businesses of the Enlarged Group and the balance remaining will be used as general working capital.

To be specific, the cashflow position of the Group will be improved under the Possible Disposal by way of a bullet cash inflow estimated at approximately HK\$56.2 million on the date of completion of the Possible Disposal. The completion of the Possible Disposal is subject to fulfilment of all relevant conditions stipulated for triggering the Possible Disposal, the latest date of which is expected to be the date of issue of the audited financial statements of the Yung Wen Group for the financial year ending 31st December, 2002.

RECOMMENDATION FOR THE MANAGEMENT AGREEMENT

Having considered various factors above, we consider that the terms of the Management Agreement (including the Possible Disposal) are fair and reasonable so far as the independent Shareholders are concerned and recommend the Independent Board Committee to recommend the independent Shareholders to vote for the Management Agreement (including the Possible Disposal).

However, taking into account that one of the conditions precedent for the Management Agreement (including the Possible Disposal) is completion of the Sale and Purchase Agreement, if the independent Shareholders decide to vote against the Sale and Purchase Agreement, it would be pointless for the independent Shareholders to vote for the Management Agreement (including the Possible Disposal).

PRINCIPAL FACTORS CONSIDERED FOR THE SUBSCRIPTION AGREEMENTS

In arriving at our recommendation in respect of the terms of the Subscriptions, we have taken into consideration the following principal factors:

(a) Background of and rationale for the Subscriptions

Under the Subscriptions, each of Founder and Mr. Cheung will subscribe in cash for a total of 31,000,000 Subscription Shares. Such number of new Shares, representing approximately 17.1% of the existing issued number of Shares or approximately 3.8% of the Enlarged Issued Share Capital.

As advised by the Directors, the Company intended to raise fresh capital by way of the Subscriptions in contemplation for the new development of the Company after the Acquisition, the Equity Transfer and the Disposal. The Directors intended that the net proceeds of approximately HK\$30,380,000 arising from the Subscriptions will be used as to approximately HK\$11 million mainly for the development of the internet and e-commerce businesses of the Enlarged Group and any balance remaining will be used as general working capital.

(b) Level of the subscription price

The subscription price of 31,000,000 Subscription Shares of HK\$1.00 per Subscription Share:

- is equal to the placing price per Share of 75,560,000 Placing Shares;
- is equal to the issue price per Share of 439,560,000 Consideration Shares;
- is equal to the issue price per Share of 93,240,000 Equity Transfer Shares;
- represents a discount of approximately 28.6% to the closing price of HK\$1.40 per Share as quoted on the Stock Exchange on 4th May, 2000, being the last trading day immediately preceding the date of the Announcement;
- represents a discount of approximately 0.6% to the average closing price of HK\$1.006 per Share as quoted on the Stock Exchange from 18th April, 2000 to 4th May, 2000, being the last ten trading days immediately preceding the date of the Announcement;
- represents a discount of approximately 39.8% to the closing price of HK\$1.66 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- represents a discount of approximately 37.9% to the average closing price of HK\$1.61 per Share as quoted on the Stock Exchange from 22nd August, 2000 to 4th September, 2000, being the last ten trading days ended on the Latest Practicable Date;
- represents a discount of approximately 2.9% to the audited consolidated net tangible asset value of the Company as at 31st December, 1999 of approximately HK\$1.030 per Share; and
- a premium of approximately 2.56% to the pro forma unaudited adjusted consolidated net tangible asset value of the Company of approximately HK\$0.975 per Share after adjusting for the unaudited consolidated net loss attributable to the Shareholders for the four months ended 30th April, 2000 (i.e. before the Acquisition, the Equity Transfer, the Disposal, the Management Arrangement, the Subscriptions and the Placing) as set out in Appendix IV of the Circular.

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For the purpose of comparison, we reviewed a total of seven placing and subscription transactions recently announced by other listed companies on the Stock Exchange in late April 2000 to late May 2000, as illustrated below:

Company name	Discount of the subscription price to the last closing price before the date of the respective announcement	Discount/(premium) of the subscription price to the average closing price for the last 10 trading days before the date of the respective announcement	Date of the respective placing and subscription agreement
The Company	28.60%	0.60%	17th May, 2000
Peace Mark (Holdings) Limited	9.10%	21.90%	28th April, 2000
Millennium Group Limited	5.70%	(7.30%)	5th May, 2000
Solartech International Holdings Limited	7.79%	14.87%	8th May, 2000
Same Time Holdings Limited	44.44%	44.44%	8th May, 2000
Digital World Holdings Limited	8.30%	4.35%	8th May, 2000
Singapore H.K. Properties Investment Limited	Nil	3.23%	15th May, 2000
Kwong Sang Hong International Limited	14.75%	14.61%	19th May, 2000

We note from such identified comparables that the discount levels of their subscription price per share to their respective closing share price immediately preceding their respective announcement of the placing and subscription transaction ranged from 0% to 44.4%, whereas the discount/(premium) levels of their subscription price per share to their respective ten-day average closing share price immediately preceding their respective announcement of the placing and subscription transaction ranged from (7.3)% to 44.4%.

In comparison, the discount of the subscription price of HK\$1.00 of approximately 28.6% to the closing price per Share immediately preceding the date of the Announcement lies within the range of those of the identified comparables. At the same time, the discount of the subscription price of HK\$1.00 of approximately 0.6% to the ten-day average closing price per Share immediately preceding the date of the Announcement also lies within the range of those of the identified comparables.

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Taking into account

- (i) the comparable level of discount represented by the subscription price relative to the market price as compared with those of the market comparables during the similar period; and
- (ii) the price of HK\$1.00 per Subscription Share is of a level equivalent to and not less than the price per Placing Share offered to the third party placees (including Sunevision) under the Placing which took place on the same date of the Subscription Agreements,

it is envisaged that the level of subscription price per Subscription Share is fair and reasonable.

(c) Terms of the Subscription Agreements

Pursuant to the Subscription Agreements, BOCI Asia would be entitled to a commission of 2% of the gross proceeds of the Subscriptions, payable by the Company. Other than this charge, each party to the Subscription Agreements will bear its or his own costs and expenses in relation to the Subscriptions. It is envisaged that such arrangement for apportionment of expenditure incurred under the Subscription Agreements is in line with the prevailing market practice.

(d) Other means of fund raising

With a view to funding the new developments of the Enlarged Group as aforesaid, the Directors advised us that they have considered various methods of financing other than the Subscriptions, such as bank borrowings, rights issue or open offer.

However, the Directors consider that such other methods of financing would be less preferable than the Subscriptions in view of the relatively higher cost and longer time involved in other funding arrangements such as rights issue, open offer and bank borrowings and the size of the capital to be raised.

RECOMMENDATION FOR THE SUBSCRIPTION AGREEMENTS

Having considered various factors above, we consider that the terms of the Subscription Agreements are fair and reasonable so far as the independent Shareholders are concerned and recommend the Independent Board Committee to recommend the independent Shareholders to vote for the Subscription Agreements.

However, taking into account that one of the conditions precedent for the Subscription Agreements is completion of the Sale and Purchase Agreement, if the independent Shareholders decide to vote against the Sale and Purchase Agreement, it would be pointless for the independent Shareholders to vote for the Subscription Agreements.

PRINCIPAL FACTORS CONSIDERED FOR THE WHITEWASH WAIVER

In arriving at our recommendation in respect of the terms of the Whitewash Waiver, we have taken into consideration the following principal factors:

(a) Background of the Whitewash Waiver

As at the Latest Practicable Date, Ricwinco is the controlling shareholder of the Company holding approximately 53.9% interest in the issued Shares. Upon the issue of the Consideration Shares, the Equity Transfer Shares, the Subscription Shares and the Placing Shares, the aggregate shareholding of Founder Electronics together with the parties acting in concert with it (i.e. the other Vendors (including, F2 Consultant and the Other Founder Data Shareholders), Founder and Mr. Cheung) in the Company will become approximately 57.4%. Under the Takeovers Code, Founder Electronics and parties acting in concert with it would be obliged to make an unconditional general offer to acquire all the Shares other than those already owned by it and parties acting in concert with it.

We understand that an application has been made on behalf of Founder to the Executive for the Whitewash Waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will normally be granted by the Executive subject to the approval of the independent Shareholders at the SGM taken on a poll.

(b) Condition precedent of the Sale and Purchase Agreement and the Subscription Agreements

Each of (i) the Sale and Purchase Agreement, (ii) the Equity Transfer Agreement, and (iii) the Subscription Agreements is conditional on the granting and approval of the Whitewash Waiver. In the event that the Whitewash Waiver is not approved by the independent Shareholders or granted by the Executive, (i) the Acquisition, (ii) the Equity Transfer and (iii) the Subscriptions will not proceed unless the relevant condition is subsequently waived by the Vendors (as far as the Acquisition and the Subscriptions are concerned) or Yahoo! (as far as the Equity Transfer is concerned) respectively. We were advised that any waiver given by the Vendors under the Sale and Purchase Agreement and the Subscription Agreements to the Whitewash Waiver is not binding on Yahoo!. The Vendors have undertaken to BOCI Asia that they will not waive such condition unless BOCI Asia is satisfied that the Vendors have sufficient financial resources to satisfy full acceptance of general offer.

If BOCI Asia is not satisfied that the Vendors have sufficient financial resources to satisfy full acceptance of general offer in the absence of the Whitewash Waiver being approved by the independent Shareholders and granted by the Executive, both the Acquisition and the Subscriptions would not be able to proceed. Under such circumstances, the Company will not be able to enjoy the merits and benefits to be brought forward by the contemplated diversification into on-line advertising and other e-commerce business with the support from Founder and Yahoo! nor to raise fresh funds by way of the Subscriptions.

LETTER FROM ASIA FINANCIAL

We consider that the Whitewash Waiver should be considered in the light of the terms of the Sale and Purchase Agreement, the Subscription Agreements and the Equity Transfer Agreement, our opinion on each of which has been stated in the sections set out above.

(c) Dilution effect on shareholding

Under the Sale and Purchase Agreement, the Company will issue an aggregate of 439,560,000 Consideration Shares to the Vendors, representing (i) approximately 242.5% of the existing issued number of Shares; or (ii) approximately 53.5% of the Enlarged Issued Share Capital.

Under the Subscription Agreements, the Company will issue an aggregate of 31,000,000 Subscription Shares to Founder and Mr. Cheung, representing (i) approximately 17.1% of the existing issued number of Shares; or (ii) approximately 3.8% of the Enlarged Issued Share Capital.

As at the Latest Practicable Date, public Shareholders (representing all the existing Shareholders other than Ricwinco and Chinney Alliance Group Limited) held 48,002,040 Shares. On the above basis, upon completion of both the Acquisition and the Subscriptions alone, the aggregate interests of the same pool of public Shareholders in the Company will be diluted from approximately 26.5% to approximately 7.4%.

Independent Shareholders should note that there will be a dilution to the extent of approximately 19.1% in the shareholding of the existing Shareholders. In view of the enlarged capital base upon completion of the Acquisition and the Subscriptions, the effect of dilution can be considered in the light of the approximately 11% enhancement in the size of capital base as aforesaid.

For the purpose of comparison, we reviewed a total of nine transactions recently announced in the market in relation to the acquisition of internet-related companies by other listed companies on the Stock Exchange. We note from such market transactions that they generally suffer from the same dilution in shareholdings ranging from approximately 3% to 85% upon issue of the relevant consideration shares of these listed companies to acquire internet-related targets. On such basis, we are of the view that such dilution in shareholdings is in line with market precedents, particularly taking into additional account that in the case of a whitewash transaction it is given that a new controlling shareholder will be introduced by way of contemplated asset injection into a listed company.

LETTER FROM ASIA FINANCIAL

RECOMMENDATION FOR THE WHITEWASH WAIVER

Having considered various factors above, we consider that the terms of the Whitewash Waiver are fair and reasonable insofar as it relates to the Acquisition and the Subscriptions and insofar as the independent Shareholders are concerned and, accordingly, recommend the Independent Board Committee to recommend the independent Shareholders to vote for the Whitewash Waiver.

However, as one of the conditions precedent for each of the Sale and Purchase Agreement and the Subscription Agreements is the approval and grant of the Whitewash Waiver, for those independent Shareholders who have decided to vote against the Sale and Purchase Agreement and the Subscription Agreements, it would be pointless for the independent Shareholders to vote for the Whitewash Waiver.

GENERAL

Considering the Acquisition, the Equity Transfer, the Disposal, the Management Arrangement (including the Possible Disposal), the Subscriptions and the Whitewash Waiver as a whole, it is our view that like other listed companies diversifying into information technology business for maintaining their overall competitiveness, the Company will suffer certain adverse financial effects and shareholding dilution. However, the Acquisition and Equity Transfer represent the only available opportunity to the Company to partnering with such prominent player as Founder and Yahoo! in the media industry and the internet industry respectively. Notwithstanding that it is impossible for us to quantify the possible long-term benefits which may or may not materialise in the immediate term, there are merits in the overall transactions which independent Shareholders should not discount in deciding on their voting on the overall agreements, particularly taking into account that

- there is no assurance that similar opportunities offered by the Acquisition and the Equity Transfer will be available to the Company in future;
- the Company is able to concentrate its resources on the development of the internet and e-commerce businesses by way of the Disposal;
- the Company is able to reserve the flexibility to divest part of its remaining businesses in case that the same fails to deliver a satisfactory return to the Company by way of the Possible Disposal;
- the Company is able to retain the expertise in the operation of the remaining businesses by way of the Management Arrangement; and
- the Company is able to raise fresh cash funding by way of the Subscriptions.

LETTER FROM ASIA FINANCIAL

We also wish to draw the attention of the independent Shareholders that as at the Latest Practicable Date, Ricwinco, being an existing controlling Shareholder, had a beneficial interest of approximately 97.7 million Shares, representing approximately 53.9% of the existing issued share capital of the Company. Under the Listing Rules and the Code, Ricwinco and parties acting in concert with it are not entitled to vote on the Acquisition (including the issue of the Consideration Shares), the Disposal, the Management Arrangement (including the Possible Disposal) and the Whitewash Waiver at the SGM.

As at the Latest Practicable Date, Chinney Alliance Group Limited, being a substantial Shareholder, had a beneficial interest of approximately 35.5 million Shares, representing approximately 19.6% of the existing issued share capital of the Company. Under the Listing Rules and the Takeovers Code, Chinney Alliance Group Limited is entitled to vote on, and Chinney Alliance Group Limited has indicated to the Company that it will vote for the Acquisition (including the issue of the Consideration Shares), the Equity Transfer (including the issue of the Equity Transfer Shares), the Disposal, the Management Arrangement (including the Possible Disposal), the Subscriptions (including the issue of the Subscription Shares) and the Whitewash Waiver at the SGM.

We also wish to draw the attention of the independent Shareholders that even if all the resolutions are approved by the independent Shareholders at the SGM, each of the Acquisition (including the issue of the Consideration Shares), the Equity Transfer (including the issue of the Equity Transfer Shares), the Disposal, the Management Arrangement (including the Possible Disposal), the Subscriptions (including the issue of the Subscription Shares) and the Whitewash Waiver is still subject to a number of conditions which may or may not eventually be fulfilled. In particular, each of the Equity Transfer, the Disposal, the Management Arrangement (including the Possible Disposal) and the Subscriptions is conditional upon, amongst other things, completion of the Sale and Purchase Agreement. In turn, the Sale and Purchase Agreement is conditional upon, amongst other things, the approval and grant of the Whitewash Waiver.

We wish to reiterate that there is an inherent risk built in the methodology of the professional valuation of the Founder Data Group (and the assumed valuation of Datacom) with which the level of the said consideration is being compared. This is attributable to the fact that the professional valuation of the Founder Data Group (and the assumed valuation of Datacom) is based specifically on the parameter of price-revenue ratio. We stress that there is an inherent possibility that the relevant projected revenue of each of AdTargeting, EC-Media and EC-Tech will turn out to be different from (either higher or lower than) the actual revenue to be achieved since anticipated events frequently do not occur as expected and the variation may or may not be material. Accordingly, subject to uncertainties and contingencies of the future industry environment (including the dynamics of competitive forces in the market, and the fast-changing pace and development of the market due to continuous innovations in available product ranges and pricing mechanism), the projected revenue of the Founder Data Group (and the assumed valuation of Datacom) prepared by its management for the year ending 30th June, 2001 (as described in the above section) cannot be relied upon to the same extent as any given financial information which had been subject to audit for a completed accounting period.

LETTER FROM ASIA FINANCIAL

Taking into account the existence of such uncertainties underlying the said revenue projection, it can be envisaged that the valuation prepared by Sallmanns for the Founder Data Group (and the assumed valuation of Datacom) on the aforesaid price-to-revenue basis may or may not reflect an actual marketable value at which any willing buyer would be willing to pay. On such basis, independent Shareholders should be aware of the existence of uncertainties whereby the level of the consideration payable for the Acquisition and the Equity Transfer may or may not represent a premium (or discount) over/(to) the actual underlying marketable valuation of the Founder Data Group (and the assumed valuation of Datacom).

As a final note, independent Shareholders are reminded, irrespective of whether they are able or not to attend the SGM, to complete and return the form of proxy enclosed in the Circular in accordance with the instructions printed thereon as soon as possible, and in any event not later than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude them from attending and voting at the SGM (or any adjournment thereof) should they so wish.

Yours faithfully,
For and on behalf of
Asia Financial Capital Limited
Alice Kan
Managing Director



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

9th September, 2000

The Directors

Management Investment & Technology (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information regarding Founder Data Corporation International Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for inclusion in the circular of Management Investment & Technology (Holdings) Limited dated 9th September, 2000 (the “Circular”). The Company was incorporated in the British Virgin Islands on 8th December, 1999 as a limited liability company.

At the date of this report, the Company has direct interests in the following subsidiaries and associated companies, which were all incorporated or established after 31st December, 1999 and are private companies (or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private company). Details of these subsidiaries and associated companies are as follows:

Company	Place and date of incorporation/ establishment	Fully paid up and issued/ registered capital	Attributable equity interest %	Principal activities
<i>Subsidiaries</i>				
Beijing AdTargeting Inc.	The People's Republic of China (the “PRC”) 25th April, 2000	Registered capital US\$300,000 <i>Note</i>	80.1	Internet advertisement agent and website design and production
Founder EC – Media Limited (formerly known as Fruitful Harvest Holding Limited)	British Virgin Islands 21st February, 2000	Ordinary share US\$1	100	Provision of e-commerce platforms for trading of press content and advertisement space

Company	Place and date of incorporation/ establishment	Fully paid up and issued/ registered capital	Attributable equity interest %	Principal activities
<i>Associated companies</i>				
Founder EC – Tech Limited (formerly known as Mimosa Investment Company Limited)	British Virgin Islands 21st February, 2000	Ordinary share US\$1	100	Development of e-commerce platforms and applications
Founder E – Town Limited (formerly known as Orient-Sheen Corporation)	British Virgin Islands 21st February, 2000	Ordinary share US\$100	60	Construction and operation of information technology infrastructure
Founder iASPEC Limited (formerly known as Mass Resources Technology Limited)	British Virgin Islands 8th February, 2000	Ordinary share US\$10,000	40	Provision of application system provider services
MC.Founder Limited (formerly known as I.Alliance Limited)	Hong Kong 27th March, 2000	Ordinary share HK\$100	40	Development of mobile commerce

Note: Beijing AdTargeting Inc. was established as an equity joint venture company in the PRC for a period of 25 years commencing from 25th April, 2000.

All companies within the Group adopt 31st December as their financial year end.

For the period from 8th December, 1999 to 31st December, 1999 (the “Initial Period”), the accounts of the Company were audited by Ernst & Young, Certified Public Accountants. We have examined the audited accounts of the Company for the Initial Period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

For the purpose of this report, we have carried out independent audit of the management accounts of the Group for the three months ended 31st March, 2000 (the “Latest Period”) in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. The financial information of the Company and the Group as set out in sections 1 to 6 below (the “Financial Information”) has been prepared based on the audited accounts of the Company for the Initial Period and the management accounts of all companies comprising the Group for the Latest Period. The directors of the companies comprising the Group are responsible for preparing the accounts of these companies which give a true and fair view. In preparing these accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are also responsible for preparing the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion on the Financial Information.

In our opinion, the Financial Information set out below, for the purpose of this report, gives a true and fair view of the results of the Company for the Initial Period and the consolidated results of the Group for the Latest Period and of the consolidated assets and liabilities of the Group as at 31st March, 2000.

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Information are set out below:

(a) Basis of preparation

The Financial Information has been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with accounting standards issued by the Hong Kong Society of Accountants. The Financial Information is prepared under the historical cost convention.

(b) Consolidation

The consolidated financial information of the Group for the Latest Period include the financial information of the Company and its subsidiaries made up to 31st March, 2000. The results of subsidiaries acquired during the period are included in the consolidated profit and loss account from the effective date of acquisition.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

2 RESULTS

The following is a summary of the results of the Company for the Initial Period and the consolidated results of the Group for the Latest Period:

	The Company From 8th December, 1999 to 31st December, 1999 HK\$	The Group For the three months ended 31st March, 2000 HK\$
Turnover	— <u> </u>	— <u> </u>
Loss for the period	— <u> </u>	(1,570) <u> </u>

- (a) For the Initial Period, the Company did not conduct any business transactions apart from the issue of shares to its shareholders. Incorporation expenses amounting to approximately HK\$5,000 were borne by the then shareholders of the Company. Accordingly, the Company did not incur any expenses nor generate any revenues for the Initial Period.
- (b) For the Latest Period, the Group did not conduct any business transactions apart from the issue of shares by the companies comprising the Group. Accordingly, the Group did not generate any revenues for the three months 31st March, 2000. Incorporation expenses for subsidiaries amounting to approximately HK\$5,000 were borne by the then shareholders of the Company.
- (c) During the Initial Period and the Latest Period, no emoluments have been paid by the Group to the directors of the Company.
- (d) No separate statement of recognised gains and losses is presented as the Company and the Group have no other recognised gains and losses other than the loss for the period.

3 BALANCE SHEETS

The balance sheet of the Company as at 31st December, 1999 and the consolidated balance sheet of the Group as at 31st March, 2000 are as follows:

		The Company 31st December, 1999	The Group 31st March, 2000
	Notes	<i>HK\$</i>	<i>HK\$</i>
Current assets			
Bank balances and cash		775	703,204
Current liabilities			
Amount due to a fellow subsidiary	(a)	—	(627,270)
		<u>775</u>	<u>75,934</u>
Financed by:			
Share capital	(b)	775	77,504
Accumulated loss		—	(1,570)
		<u>775</u>	<u>75,934</u>

Notes

(a) Amount due to a fellow subsidiary

The amount is due to Founder (Hong Kong) Limited, a fellow subsidiary, and is unsecured, interest-free and repayable on demand.

(b) Share capital

- (i) On incorporation, the Company issued 100 ordinary shares of US\$1 each at par for cash to the subscribers; and
- (ii) On 3rd January, 2000, the Company issued 9,900 ordinary shares of US\$1 each at par for cash to provide additional working capital.

(c) Net tangible assets of the Company

The net tangible assets of the Company as at 31st December, 1999 and of the Group as at 31st March, 2000 were HK\$775 and HK\$75,934 respectively.

(d) Distributable reserves

The Company had no reserves available for distribution to shareholders as at 31st December, 1999 and 31st March, 2000.

4 CASH FLOWS

The cash flows of the Company for the Initial Period and the consolidated cash flows of the Group for the Latest Period are as follows:

	The Company From 8th December, 1999 to 31st December, 1999 HK\$	The Group For the three months ended 31st March, 2000 HK\$
Operating activities		
Loss for the period	—	(1,570)
Increase in amount due to a fellow subsidiary	—	627,270
	<hr/>	<hr/>
Net cash inflow from operating activities	—	625,700
Financing		
Issue of ordinary shares	775	76,729
	<hr/>	<hr/>
Increase in cash and cash equivalents	775	702,429
Cash and cash equivalents at the beginning of the period	—	775
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>775</u>	<u>703,204</u>

5 SUBSEQUENT EVENTS

On 5th April, 2000, the Company issued 10,000 ordinary shares of US\$1 each at premium of US\$259, giving rise to cash proceeds of US\$2,600,000, to provide additional working capital.

6 SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of its subsidiaries and associated companies in respect of any period subsequent to 31st December, 1999 and up to date of this report and no dividend or other distribution has been declared, made or paid by the Company or its subsidiaries or associated companies in respect of any period subsequent to 31st March, 2000.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a letter, being a summary of the principal conclusions of a business valuation, prepared for the purpose of incorporation in this circular, received from Sallmanns, an independent valuer, in connection with its business valuation as at 17th May, 2000 of the Founder Data Group currently held by Founder.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

15th Floor, Trinity House
165-171 Wanchai Road
Wanchai
Hong Kong

9th September, 2000

The Directors

Management Investment & Technology (Holdings) Limited

Founder Holdings Limited

Dear Sirs,

In accordance with your instructions, we have undertaken a valuation to determine an independent opinion of the market value of a 100% equity interest in Founder Data Corporation International Limited (“Founder Data”) and its subsidiaries and associated companies (together “the FD Group”) as at 17th May, 2000. This letter summarises the principal conclusions of our detailed valuation dated 9th September, 2000.

The purpose of the valuation is to express an independent opinion of the market value of a 100% equity interest in the FD Group as at 17th May, 2000 in connection with a purchase of a 100% equity interest in Founder Data by Management Investment & Technology (Holdings) Limited.

Our valuation has been carried out on a market value basis. Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Founder Data is an investment holding company incorporated in the British Virgin Islands on 8th December, 1999. As at 17th May, 2000, we have assumed that the restructuring of the FD Group had been completed and Founder Data, therefore, has four subsidiaries, namely, Beijing AdTargeting Inc. (80.1% — *Note 1*) (“AdTargeting”), Founder EC-Media Limited (100%) (“EC-Media”), Founder EC-Tech Limited (100%) (“EC-Tech”) and Founder E-Town Limited (60%) (“E-Town”), and two associated companies, namely, Founder iASPEC Limited (40% — *Note 2*) (“iASPEC”) and MC. Founder Limited (40%) (“MC. Founder”). AdTargeting, EC-Media and EC-Tech have started operations while E-Town, iASPEC and MC. Founder are still at the planning stage.

Note 1 — As at 17th May, 2000, 20% was registered in the name of Founder Data and 60.1% in the name of Beijing Founder Electronics Co. Ltd. As at the report date, 60.1% equity interest in AdTargeting (held by Beijing Founder Electronics Co. Ltd.) has been transferred to Founder Data.

Note 2 — As at 17th May, 2000, Founder Data held 4,000 shares out of the total issued 9,100 shares of Founder iASPEC Limited, the remaining 5,100 shares were held by an independent third party. As at the report date, a further 900 new shares has been issued to F2 Consultant Limited as nominee on behalf of the directors of Founder iASPEC Limited acting in their capacity as the trustees of a discretionary trust for the benefits of the employees of Founder iASPEC Limited.

The FD Group operates three major businesses through AdTargeting, EC-Media and EC-Tech:

ADTARGETING

AdTargeting was established by Founder Holdings Limited (“Founder”) (through Founder Data and Beijing Founder Electronics Co., Ltd.) and Yahoo! Inc. Upon Completion, Founder Data and Datacom will hold 80.1% and 19.9% equity interest in AdTargeting respectively. AdTargeting aims to act as an internet advertising agency in the PRC following the “Double Click” model. With Founder’s extensive publishing client-base in the PRC, AdTargeting hopes to command a leading position in the rapidly growing internet advertising market by establishing strategic alliances with major media companies in the PRC to form a Super Media Alliance (“SMA”). At present, the company has established strategic alliances with more than 30 newspaper and magazine publishers in the PRC to act as their internet advertising sales agent.

EC-MEDIA

EC-Media builds and operates business-to-business (“B2B”) e-commerce platforms to facilitate content production, storage and on-line transactions of press content such as news and photos between publishers and internet content providers (ICPs) in the PRC, to facilitate advertising between publishers and advertisers and to engage in other e-commerce operations in the media industry. It aims to be a leading application service provider for content production cooperation between publishers, advertising agent and ICPs.

At present, the PRC Government does not permit ICPs which are not conventional news publishing houses to set up their own reporter teams to gather information. Thus, news publishing houses enjoy an absolute advantage in respect of information sources. The information released publicly by news publishing houses usually represents only a small portion of the gathered material, with most kept by news publishing houses as reference material. EC-Media was set up to capture this niche B2B e-commerce market by providing a centralized media storage database and a platform to trade the stored content between media companies and ICPs.

EC-TECH

EC-Tech is a software vendor of e-commerce solutions and internet security products, focusing on the development of e-commerce platform technology. EC-Tech is engaged in internet technology research and development, e-commerce platform/technology/product development, e-commerce solutions and security and consulting services.

We confirm that we have reviewed contracts, memoranda of understanding and other pertinent data relating to the FD Group and its proposed channels provided by the FD Group and its advisers. We believe such information to be reliable and legitimate. We have also made relevant inquiries and obtained further information as considered necessary for the purposes of this valuation. We have assumed the accuracy of information as provided and relied to a considerable extent on such information in arriving at our opinion of value.

The valuation of an interest in the FD Group requires consideration of all pertinent factors affecting the operation of the business and its ability to generate future investment returns. The factors considered in this valuation included, but were not limited, to the following:

- the nature of the business and the history of the operation from its inception;
- the financial condition of the business;
- the economic outlook in general and the specific economic environment for the business;
- past and projected operating results;
- the operational contracts and agreements in relation to the business;
- the potential of the business and industrial outlook;
- comparative advantages and disadvantages of the business and industry;
- market-derived investment returns of entities engaged in similar lines of business; and
- the financial and business risk of the enterprise including the continuity of income and the projected future results.

In assessing the market value of the FD Group, we have adopted the revenue multiple approach technique. Under the revenue multiple approach, value is derived by multiplying a single year's revenue by the market price to revenue multiple. In this instance, we have applied a price to revenue ratio to the unaudited expected revenue for the period from 1st July, 2000 to 30th June, 2001 for each of AdTargeting, EC-Media and EC-Tech. The unaudited expected revenue for the period from 1st July, 2000 to 30th June, 2001 of AdTargeting, EC-Media and EC-Tech is approximately US\$7.6 million, US\$1.6 million and US\$0.9 million respectively.

In addition, we have taken into account the time value of money by discounting at a rate of 35%, 27% and 26% respectively on the unaudited expected revenues to approximately US\$5.9 million (for AdTargeting), US\$1.3 million (for EC-Media) and US\$0.75 million (for EC-Tech) as at 17th May, 2000 for the purpose of the valuation.

The use of historical multiples on projected revenues is usual in the investment community. In the case of companies which are not expected to have significant revenues in the first year of operations, the relevant multiples can be applied to the projected revenues in the second or sometimes third year's projections with a discount. In this regard, we have discounted the projected revenues back to 17th May, 2000.

AdTargeting

We believe a price to revenue multiple for AdTargeting of 9 to be reasonable and justifiable. The price to revenue multiple was derived after considering various public listed internet advertising agent companies in the US with a discount of 20% to allow for differences between the US and the PRC markets. The multiple of 9 is derived from the median number of 11.5 (i.e. the middle figure between the upper and lower halves of the multiples) calculated from the price to revenue multiples of the comparable companies used as at 17th May, 2000 and applying a 20% discount to reflect the differences between US companies and the PRC companies, rounded to the nearest integral number.

EC-Media

We believe a price to revenue multiple for EC-Media of 3 to be reasonable and justifiable. The price to revenue multiple was derived after considering various public listed content trading companies in the US. The multiple of 3 is derived from the median number of 3.7 calculated from the price to revenue multiples of the comparable companies used as at 17th May, 2000 and applying a 20% discount to reflect the differences between US companies and the PRC companies, rounded to the nearest integral number.

EC-Tech

We believe a price to revenue multiple for EC-Tech of 20 to be reasonable and justifiable. The price to revenue multiple was derived after considering various public listed software companies in the US. The multiple of 20 is derived from the median number of 25.3 calculated from the price to revenue multiples of the comparable companies used as at 17th May, 2000 and applying a 20% discount to reflect the differences between US companies and the PRC companies, rounded to the nearest integral number.

The companies we have made reference to are listed companies of similar business nature (internet advertising agent companies, content trading companies and software companies) in the US to the FD Group's operations in the PRC (details of which are set out in the tables below). We have not made reference to private companies as we consider that accurate information concerning these companies may either not be available or may not represent public market information. In determining the price to revenue multiple, we have considered the current operations of the FD Group, the likely long-term growth in revenue, its capital structure, the ease with which an interest in the FD Group could be liquidated and other relevant factors we deemed necessary. In support of the business valuation, we have made reference to the market value of the FD Group using other appropriate valuation approaches in order to ensure the reasonableness of our indicated value attributed to the FD Group's operations based on the revenue multiple approach technique.

	Price to Revenue Ratio	Price as at 17th May, 2000 US\$	Sales per Share US\$
AdTargeting's Comparable			
Quintel Communications, Inc.	1.479	2.500	1.690
Avenue A, Inc.	3.28	15.750	4.800
24/7 Media, Inc.	4.093	23.125	5.650
L90, Inc.	4.637	8.625	1.860
ValueClick, Inc.	5.000	13.750	2.750
Exactis.com, Inc	5.378	13.500	2.510
Life Minders Inc.	10.420	26.375	2.53
NetCreations	12.751	31.750	2.490
Mediaplex	18.858	32.625	1.730
DoubleClick, Inc.	19.198	56.250	2.930
Engage.com	19.324	18.938	0.980
Be Free, Inc	40.669	11.750	0.289
Go Online Networks, Corp.	128.136	0.297	0.002
Global Network, Inc.	2,245.833	6.125	0.003
EC-Media's Comparable			
NewsEDGE	0.70	2.94	4.19
OneSource	2.03	8.00	3.95
DST System	3.68	70.81	19.24
Infonautics	3.71	5.91	1.59
Scoop, Inc	4.06	1.63	0.40
Factset Research System	7.30	26.56	3.64
InfoSpace	245.50	61.38	0.25
EC-Tech's Comparable			
AXENT	4.67	19.88	4.26
Ion Networks	5.35	10.06	1.88
Cylink Corp	5.66	12.50	2.21
Pilot Network	5.73	13.00	2.27
Open Market	6.04	12.38	2.05
Rsa Security	10.45	57.38	5.49
WatchGuard	25.26	36.63	1.45
Preview Systems	25.40	15.75	0.62
Digimarc Corp	29.45	43.88	1.49
ISS Group	31.10	93.00	2.99
Sonic Wall	46.32	63.00	1.36
Check Point	60.51	182.75	3.02
Trend Micro	65.63	13.13	0.20
InterTrust Tech	416.07	20.25	0.05

In arriving at our assessed value, we have only considered revenue streams for AdTargeting, EC-Media, and EC-Tech. We have not considered revenue generated by E-Town, iASPEC and MC.Founder as they are not yet in operation at this stage.

In determining the value of the FD Group, we have made the following key assumptions:

- In order to realise the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For the valuation exercise, we assume that all proposed facilities and equipment will work properly and will be sufficient for future expansion.
- There will be no material change in the existing political, legal, technological, fiscal or economic condition which adversely affect the business of the FD Group.
- Operational and contractual terms bound by contracts and agreements will be honoured.
- Its competitive advantages and disadvantages do not change significantly during the operating period.

The conclusion of value is based on generally accepted valuation procedures and practices that rely substantially on the use of the above assumptions and the consideration of many uncertainties, such as changes in interest rate and market condition, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the FD Group and ourselves.

In determining the discount rates of 35%, 27% and 26% for the three major subsidiaries of the FD Group, we have taken into account a number of factors including the current market information and the underlying risk inherent in the business, such as uncertainty risk, liquidity risk, exchange risk, etc.

The value for the three major subsidiaries, namely, AdTargeting (80.1%), EC-Media (100%) and EC-Tech (100%) is US\$43 million, US\$4 million and US\$15 million respectively.

Based on the investigation and analysis outlined in this report, it is our opinion that as at 17th May, 2000, the market value of a 100% equity interest in the FD Group is reasonably stated by the amount of US\$62 million (US DOLLARS SIXTY TWO MILLION).

Yours faithfully,
For and on behalf of
Sallmanns (Far East) Limited
Brett A. Shadbolt
Managing Director

The following is an extract of the audited financial statements of the Group for the five years ended 31st December, 1999 (the date to which the latest audited financial statements of the Group were made up) together with notes thereto for the two years ended 31st December, 1999:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31st December,				
	1999	1998	1997	1996	1995
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>314,296</u>	<u>367,397</u>	<u>332,997</u>	<u>543,460</u>	<u>475,653</u>
Operating profit/(loss)	3,742	(43,981)	108,667	20,856	10,824
Share of profits less losses of					
— jointly controlled entities	14,830	(2,812)	(1,193)	(290)	—
— associated companies	(1)	1	(165)	(491)	(683)
Profit/(loss) before taxation	18,571	(46,792)	107,309	20,075	10,141
Taxation (charge)/credit	(531)	515	(1,405)	(1,079)	(1,993)
Profit/(loss) before minority interests	18,040	(46,277)	105,904	18,996	8,148
Minority interests	—	(3)	(104)	678	746
Profit/(loss) attributable to shareholders	<u>18,040</u>	<u>(46,280)</u>	<u>105,800</u>	<u>19,674</u>	<u>8,894</u>

CONSOLIDATED PROFIT AND LOSS ACCOUNT (continued)

	Note	Year ended 31st December,	
		1999 HK\$'000	1998 HK\$'000
Turnover	2	314,296	367,397
Cost of sales		<u>(280,115)</u>	<u>(350,369)</u>
Gross profit		34,181	17,028
Other revenue	2	22,161	5,610
Distribution costs		(2,392)	(1,036)
Administrative expenses		(36,996)	(40,728)
Other operating expenses		<u>(6,975)</u>	<u>(19,985)</u>
Operating profit/(loss) before finance costs	3	9,979	(39,111)
Finance costs	4	<u>(6,237)</u>	<u>(4,870)</u>
Operating profit/(loss)		3,742	(43,981)
Share of profits less losses of			
Jointly controlled entities		14,830	(2,812)
Associated companies		<u>(1)</u>	<u>1</u>
Profit/(loss) before taxation		18,571	(46,792)
Taxation (charge)/credit	5	<u>(531)</u>	<u>515</u>
Profit/(loss) after taxation		18,040	(46,277)
Minority interests		<u>—</u>	<u>(3)</u>
Profit/(loss) for the year retained	6,23	<u><u>18,040</u></u>	<u><u>(46,280)</u></u>
Basic earning/(loss) per share	7	<u><u>10.16 cents</u></u>	<u><u>(26.06) cents</u></u>
Fully diluted earnings/(loss) per share	7	<u><u>10.08 cents</u></u>	<u><u>N/A</u></u>

CONSOLIDATED BALANCE SHEET

As at 31st December, 1999

	<i>Note</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Deferred development costs	<i>10</i>	3,709	240
Fixed assets	<i>11</i>	105,756	103,421
Construction in progress	<i>12</i>	476	2,660
Investments in jointly controlled entities	<i>14</i>	46,189	32,038
Long-term investments	<i>16</i>	1,075	855
Current assets			
Inventories	<i>18</i>	69,898	63,129
Due from a venturer in a jointly controlled entity	<i>2(a)</i>	19,325	—
Due from jointly controlled entities	<i>14</i>	13,017	43,094
Trade receivables		28,395	39,071
Prepayments, deposits and other receivables		10,020	10,351
Short-term investments	<i>17</i>	982	7,143
Bank balances and cash		28,500	12,471
		<u>170,137</u>	<u>175,259</u>
Current liabilities			
Trade payables		72,954	42,942
Other payables and accrued liabilities	<i>20</i>	11,241	24,145
Current portion of long-term liabilities	<i>24</i>	6,323	5,205
Due to jointly controlled entities	<i>14</i>	50	2,906
Other loan	<i>21</i>	10,000	15,000
Short-term bank loans and overdrafts, secured		31,259	47,665
		<u>131,827</u>	<u>137,863</u>
Net current assets		<u>38,310</u>	<u>37,396</u>
		<u>195,515</u>	<u>176,610</u>
Financed by:			
Share capital	<i>22</i>	17,760	17,760
Reserves	<i>23</i>	168,854	150,814
Shareholders' funds		186,614	168,574
Minority interests		2,349	2,349
Long-term liabilities	<i>24</i>	6,552	5,687
		<u>195,515</u>	<u>176,610</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 1999

	1999 HK\$'000	1998 HK\$'000
Net cash inflow/(outflow) from operating activities	47,772	(14,332)
Returns on investments and servicing of finance		
Interest received	2,093	4,470
Interest paid	(5,528)	(4,223)
Interest element on finance lease rental payments	(825)	(647)
Dividends paid	—	(5,328)
	<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance	(4,260)	(5,728)
	<u> </u>	<u> </u>
Taxation		
Hong Kong profits tax paid	(4)	(6)
Overseas tax refund	147	—
	<u> </u>	<u> </u>
Tax refund/(paid)	143	(6)
	<u> </u>	<u> </u>
Investing activities		
Purchase of fixed assets and additions to construction in progress	(12,446)	(29,734)
Purchase of short-term investments	(17,000)	(12,006)
Proceeds from disposal of short-term investments	21,944	2,917
Purchase of subsidiaries	—	(661)
Proceeds from disposal of fixed assets	1,352	987
Payment for development costs	(3,685)	(189)
Increase in amounts due from associated companies	—	(3)
Purchase of long-term investments	(220)	—
Repayment of loan receivable	1,852	—
	<u> </u>	<u> </u>
Net cash outflow from investing activities	(8,203)	(38,689)
	<u> </u>	<u> </u>
Net cash inflow/(outflow) before financing activities	35,452	(58,755)
	<u> </u>	<u> </u>

CONSOLIDATED CASH FLOW STATEMENT *(continued)**For the year ended 31st December, 1999*

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing activities		
(Repayment)/addition of trust receipt bank loans	(16,352)	10,400
Addition of mortgage loan	—	1,596
Repayment of mortgage loans	(1,792)	(1,649)
(Repayment)/addition of other loan	(5,000)	15,000
Repayment of capital element of finance lease obligations	(4,225)	(2,739)
Proceeds from sales and leaseback	8,000	—
New short-term bank loan	8,518	—
	<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing activities	(10,851)	22,608
	<u> </u>	<u> </u>
Increase/(decrease) in cash and cash equivalents	24,601	(36,147)
	<u> </u>	<u> </u>
Cash and cash equivalents at 1st January	438	36,585
	<u> </u>	<u> </u>
Cash and cash equivalents at 31st December	<u>25,039</u>	<u>438</u>
	<u> </u>	<u> </u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	28,500	12,471
Bank loans and overdrafts	(3,461)	(12,033)
	<u> </u>	<u> </u>
	<u>25,039</u>	<u>438</u>
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings and investments in securities.

As a result of the adoption of the revised Statements of Standard Accounting Practice (“SSAP”) 1 and 2 which became effective this year, certain comparative figures have been reclassified or extended accordingly.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(c) Associated companies** *(continued)*

The consolidated profit and loss account includes the Group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision, if necessary, for any permanent diminution in value. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(e) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries, associated companies and jointly controlled entities acquired and is taken to reserves in the year of acquisition.

(f) Development costs

Development costs are expended as incurred, except where it is expected that the product under development will be profitable and will be produced and its technical feasibility has been demonstrated. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(g) Property, plant and equipment**

Fixed assets are stated at cost or valuation, less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost or valuation over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land and buildings	Over the terms of the individual leases or 50 years, whichever is shorter
Leasehold improvements	10%
Machinery, equipment and moulds	6.67% - 25%
Furniture, fixtures and office equipment	12.5%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amounts.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(h) Construction in progress

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost. Cost comprises direct costs of construction, installation and testing as well as interest charges on related borrowed funds during the period of construction or installation. Construction in progress is transferred to fixed assets on completion of the construction work or installation and when it is ready for its intended use.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(i) Assets under leases***(i) Finance leases*

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over their estimated useful lives.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(j) Investments in securities

Listed and unlisted investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of these investments are recognised in the profit and loss account. Profits or losses on disposal of these investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a standard costing basis which approximates average actual cost and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(l) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from subcontracting services is recognised when the underlying services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payments is established.

Operating lease rental income is recognised on a straight-line basis.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(p) Retirement benefit costs**

The Group's contributions to the defined contribution retirement scheme are expended as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(q) Change in accounting policy

The Group adopted the revised SSAP 1 "Presentation of financial statements" commencing from 1st January, 1999 which resulted in a change in accounting policy with respect to pre-operating expenses.

Before 1st January, 1999, pre-operating expenses incurred prior to the commencement of full commercial operation were capitalised and amortised on a straight-line basis over periods not exceeding five years. Starting from 1st January, 1999, pre-operating expenses are expended as incurred.

This change in accounting policy was applied retrospectively. As a result of the adoption of this accounting policy, the Group's net loss for the year ended 31st December, 1998 increased by HK\$3,456,000 and the opening retained profits for 1998 decreased by HK\$1,082,000 which result in a decrease of the opening retained profits for 1999 by HK\$4,538,000. The Group's profit for the year ended 31st December, 1999 was increased by HK\$1,163,000 with the net assets at the year end decreased by HK\$3,375,000. Comparative figures for the year ended 31st December, 1998 were restated to reflect the change in accounting policy.

2 REVENUE AND TURNOVER

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of goods	283,288	367,397
Provision of subcontracting services	31,008	—
	<u>314,296</u>	<u>367,397</u>
Other revenue		
Rental income	743	1,140
Interest income	2,093	4,470
Other gain (note (a))	19,325	—
	<u>22,161</u>	<u>5,610</u>
Total revenues	<u>336,457</u>	<u>373,007</u>

2 REVENUE AND TURNOVER *(continued)*

- (a) As part of the consideration for the sale of 50% interests in Digital Lighting Holdings Limited (“DL”) to Alpha Lighting Inc. (“Alpha”) by the Group in 1996, Alpha agreed to pay a maximum bonus of HK\$19,325,000 to the Group for each of the two years ending 31st December, 2000 if DL and its subsidiaries (“DL Group”) are able to meet the target profits (the “Target”) as defined in the underlying agreement. For the year ended 31st December, 1999, DL Group achieved the Target and accordingly the Group recognised the bonus of HK\$19,325,000 payable by Alpha in the accounts.

3 OPERATING PROFIT/(LOSS) BEFORE FINANCE COSTS

Operating profit/(loss) before finance costs is stated after crediting and charging the following:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Crediting		
Gain on disposal of short-term investments	4,944	284
Net exchange gain	—	922
	<u>4,944</u>	<u>1,206</u>
Charging		
Staff costs	46,972	51,485
Depreciation		
Owned fixed assets	8,558	7,293
Leased fixed assets	2,339	1,229
Less: depreciation capitalised as development costs	(520)	—
	<u>10,377</u>	<u>8,522</u>
Amortisation and write-off of development costs	835	214
Operating lease rentals on land and buildings	2,981	3,115
Auditors' remuneration	579	625
Provision for doubtful debts	1,861	11,259
Loss on disposal of fixed assets	46	50
Write down in value of short-term investments	6,161	5,270
Net exchange loss	2,070	—
	<u>20,922</u>	<u>28,905</u>

4 FINANCE COSTS

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Interest on bank loans and overdrafts	3,259	3,003
Interest on other loan		
Wholly repayable within five years	2,153	1,220
Interest element of finance leases	<u>825</u>	<u>647</u>
	<u><u>6,237</u></u>	<u><u>4,870</u></u>

5 TAXATION (CHARGE)/CREDIT

Hong Kong profits tax had been provided at the rate of 16% on the estimated assessable profit for the year ended 31st December, 1998. No provision for Hong Kong profits tax has been made in the accounts for the year ended 31st December, 1999 as the Group has available tax losses brought forward. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Hong Kong profits tax	—	(6)
Overseas taxation	<u>148</u>	<u>(6)</u>
	148	(12)
Share of taxation attributable to jointly controlled entities	<u>(679)</u>	<u>527</u>
	<u><u>(531)</u></u>	<u><u>515</u></u>

The amount of deferred taxation not provided for in the accounts are set out in note 19.

6 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$2,552,000 (1998: a loss of HK\$25,805,000).

7 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$18,040,000 (1998: a loss of HK\$46,280,000).

The basic earnings/(loss) per share is based on the 177,602,040 (1998: 177,602,040) ordinary shares in issue during the year.

The diluted earnings per share for 1999 is based on 177,602,040 ordinary shares which is the number of ordinary shares in issue during the year plus the weighted average of 1,326,316 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

The diluted loss per share for 1998 has not been presented because the effect of any dilution is antidilutive.

8 RETIREMENT BENEFIT COSTS

The Group contributed to a defined contribution retirement scheme which was available to all employees in Hong Kong. Contributions to the scheme by the Group were calculated as a percentage of employees' basic salaries. With effect from 1st January, 1999, the Group ceased to make contributions to the above retirement scheme.

The Group's contributions for the year ended 31st December, 1998 were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$114,648 were utilised during the year ended 31st December, 1998.

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Fees	—	—
Other emoluments:		
Salaries, bonus and benefits in kind	6,695	8,397
Contributions to retirement benefit scheme	—	613
	<u>6,695</u>	<u>9,010</u>

During the year ended 31st December, 1997, 7,800,000 share options were granted to certain directors of the Company. These share options, which must be exercised before 31st July, 2002, provide for the directors to subscribe for 7,800,000 ordinary shares of HK\$0.10 each of the Company at a price of HK\$0.507 per ordinary share. None of these options had been exercised up to 31st December, 1999.

During the current and prior years, no emoluments were paid to independent non-executive directors of the Company.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	1999	1998
HK\$Nil — HK\$1,000,000	5	5
HK\$2,000,001 — HK\$2,500,000	1	—
HK\$2,500,001 — HK\$3,000,000	—	1
HK\$4,000,001 — HK\$4,500,000	1	—
HK\$6,000,001 — HK\$6,500,000	—	1
	<u>—</u>	<u>1</u>

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (1998: three) individuals during the year are as follows:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Salaries, bonus and benefits in kind	3,619	3,663
Contributions to retirement benefit scheme	51	280
	<u>3,670</u>	<u>3,943</u>

The emoluments fell within the following band:

Emolument band	Number of individuals	
	1999	1998
HK\$1,000,001— HK\$1,500,000	<u>3</u>	<u>3</u>

10 DEFERRED DEVELOPMENT COSTS

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
At 1st January	240	265
Additions during the year	<u>3,685</u>	<u>189</u>
	3,925	454
Amortisation for the year	<u>(216)</u>	<u>(214)</u>
At 31st December	<u>3,709</u>	<u>240</u>

11 FIXED ASSETS

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, equipment and moulds <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation						
At 1st January, 1999	40,321	16,758	67,814	8,177	5,096	138,166
Additions	719	2,163	5,399	374	713	9,368
Reclassification	(778)	778	61	(61)	—	—
Transfer from construction in progress	—	2,425	2,798	39	—	5,262
Disposals	(583)	(27)	(53)	(50)	(1,272)	(1,985)
At 31st December, 1999	<u>39,679</u>	<u>22,097</u>	<u>76,019</u>	<u>8,479</u>	<u>4,537</u>	<u>150,811</u>
Accumulated depreciation						
At 1st January, 1999	4,702	3,976	20,660	2,998	2,409	34,745
Charge for the year	1,268	1,612	6,321	819	877	10,897
Reclassification	—	—	31	(31)	—	—
Disposals	(36)	(14)	(30)	(2)	(505)	(587)
At 31st December, 1999	<u>5,934</u>	<u>5,574</u>	<u>26,982</u>	<u>3,784</u>	<u>2,781</u>	<u>45,055</u>
Net book value						
At 31st December, 1999	<u><u>33,745</u></u>	<u><u>16,523</u></u>	<u><u>49,037</u></u>	<u><u>4,695</u></u>	<u><u>1,756</u></u>	<u><u>105,756</u></u>
At 31st December, 1998	<u><u>35,619</u></u>	<u><u>12,782</u></u>	<u><u>47,154</u></u>	<u><u>5,179</u></u>	<u><u>2,687</u></u>	<u><u>103,421</u></u>

The analysis of the cost or valuation at 31st December, 1999 of the above assets is as follows:

At cost	21,679	22,097	76,019	8,479	4,537	132,811
At 1993 valuation	<u>18,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,000</u>
	<u><u>39,679</u></u>	<u><u>22,097</u></u>	<u><u>76,019</u></u>	<u><u>8,479</u></u>	<u><u>4,537</u></u>	<u><u>150,811</u></u>

11 FIXED ASSETS (continued)

- (a) The Group's interests in land and buildings at their net book values are analysed as follows:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
In Hong Kong, held on:		
Leases of over 50 years	16,169	16,533
Outside Hong Kong, held on:		
Freehold	2,699	2,755
Leases of over 50 years	8,778	9,602
Leases of between 10 to 50 years	3,514	3,199
Leases of less than 10 years	2,585	3,530
	<u>33,745</u>	<u>35,619</u>

Certain leasehold land and buildings with a net book value of approximately HK\$16.2 million (1998: HK\$16.5 million) were revalued at 31st December, 1993 by Messrs C. Y. Leung & Company Limited, registered professional surveyors, at open market values based on their existing use. The Group has relied upon the exemption from the requirement to revalue the entire class of leasehold land and buildings on a regular basis, granted under paragraph 72 of SSAP 17 "Property, plant and equipment". Had the Group's land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$13.4 million (1998: HK\$13.5 million).

- (b) At 31st December, 1999, the net book value of fixed assets held by the Group under finance leases amounted to HK\$24,854,140 (1998: HK\$17,113,000).
- (c) At 31st December, 1999, the net book value of fixed assets pledged as security for the Group's banking facilities amounted to HK\$7,278,700 (1998: HK\$19,482,000).

12 CONSTRUCTION IN PROGRESS

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January	2,660	8,444
Additions during the year	3,078	18,657
Transfer to fixed assets (Note 11)	(5,262)	(24,441)
	<u>476</u>	<u>2,660</u>
At 31st December	<u>476</u>	<u>2,660</u>
Plant, machinery and equipment under installation	476	608
Properties under construction	—	2,052
	<u>476</u>	<u>2,660</u>

13 INVESTMENTS IN SUBSIDIARIES

The following is a list of the Company's principal subsidiaries as at 31st December, 1999:

Name	Place of incorporation/ registration and operation	Nominal value of issued/paid- up capital	Percentage of equity attributable to the Group	Principal activities
Management Investment & Technology International Inc.	British Virgin Islands	US\$1,000	100%	Investment holding
Management Investment & Technology Company Limited	Hong Kong	Ordinary - HK\$2 Deferred - HK\$27 million	100%	Design, manufacture and sale of weighing scales
Digital Semiconductor Co., Limited ("DS") (d)	Hong Kong	HK\$15,787,200	100%	Investment holding, marketing and distribution of semi- conductors and provision of subcontracting services
Dongguan Chang Yeung Electronic Co., Ltd. ("Equity JV") (d)	The People's Republic of China (the "PRC")	HK\$20,244,347	(d)	Manufacture and distribution of semi-conductors
Golden Future Profits Limited	British Virgin Islands	US\$1	100%	Manufacture and distribution of semi- conductors and provision of subcontracting services
DS Components Limited	Hong Kong	HK\$2	100%	Marketing and distribution of semi- conductors

13 INVESTMENTS IN SUBSIDIARIES *(continued)**Notes:*

- (a) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.
- (b) All the above principal subsidiaries except for Management Investment & Technology International Inc. are held indirectly by the Company.
- (c) The issued capital of all the above subsidiaries is in the form of ordinary/common shares, except for Equity JV whose capital is in the form of paid-up contributions, and the non-voting deferred shares of HK\$27 million of Management Investment & Technology Company Limited.
- (d) Equity JV is a Sino-foreign equity joint venture established in the PRC on 12th May, 1992 with a tenure of 10 years. Pursuant to the joint venture agreement, DS is entitled to share in 85% of Equity JV's profits or losses. Subsequently on 3rd April, 1995, DS entered into a supplemental agreement with the PRC joint venture partner (the "JV Partner") whereby DS agreed to make certain annual payments to the JV Partner for the remaining tenure of Equity JV and that the JV Partner is not responsible for any losses of Equity JV. In return, the JV Partner agreed to give up all the rights of the profits and of the management and control of Equity JV. As a result, the directors are of the opinion that the Group has full control of the operations of Equity JV and the full entitlement of its profits or losses.

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments in jointly controlled entities		
Share of net assets	<u>46,189</u>	<u>32,038</u>
Due from jointly controlled entities	13,017	43,094
Due to jointly controlled entities	<u>(50)</u>	<u>(2,906)</u>

The amounts due from and to jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment except for amounts of HK\$10,196,000 (1998: HK\$29,048,000) due from Digital Lighting Co., Limited which bear interest at Hong Kong dollar prime rate plus 0.25% to 0.5% per annum.

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The Group's share of aggregate profit for the year retained by jointly controlled entities amounted to HK\$14,151,000 (1998: a loss of HK\$2,285,000).

Particulars of the Group's principal jointly controlled entities, which are incorporated and unlisted, at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Digital Lighting Holdings Limited	British Virgin Islands	50%	Investment holding
Digital Lighting Co., Limited	Hong Kong	50%	Investment holding, manufacture, marketing and distribution of lighting products
Emerald Lighting, Inc.	United States of America	50%	Marketing and distribution of lighting products
Edison Lighting Canada, Inc.	Canada	50%	Marketing and distribution of lighting products
Suzhou Changrong Lamp Sets Co., Ltd.	The PRC	31.25%	Manufacture and distribution of lighting products
Suzhou Rongwen Electronic & Electronic Appliance Co., Ltd.	The PRC	47.5%	Manufacture and distribution of lighting products
Silver Light International Limited	British Virgin Islands	50%	Marketing and distribution of electronic products
Silver Victory Hong Kong Limited	Hong Kong	50%	Manufacture and distribution of electronic products

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the Group's interests in jointly controlled entities. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following is a condensed summary of certain additional financial information in respect of a major jointly controlled entity, Digital Lighting Holdings Limited, and its subsidiaries.

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Consolidated results		
Turnover	<u>420,879</u>	<u>279,887</u>
Profit/(loss) before taxation	<u>25,187</u>	<u>(4,817)</u>
Profit/(loss) after taxation	<u>23,829</u>	<u>(3,763)</u>
Share of post-acquisition profit/(loss) for the year attributable to the Group	<u>11,915</u>	<u>(1,881)</u>
Consolidated assets and liabilities		
Fixed assets	29,366	35,833
Other long-term assets	1,710	1,599
Current assets	227,499	191,637
Current liabilities	(170,679)	(164,053)
Long-term liabilities	(60)	(98)
Minority interests	<u>(398)</u>	<u>(3,279)</u>
Net assets	<u>87,438</u>	<u>61,639</u>
Share of net assets attributable to the Group	<u>42,440</u>	<u>30,503</u>

15 INVESTMENTS IN ASSOCIATED COMPANIES

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Share of net assets	1,673	1,674
Due from associated companies	1,070	1,070
Due to associated companies	(783)	(783)
Provision for diminution in value	(1,960)	(1,961)
	<u>—</u>	<u>—</u>

The amounts due from and to associated companies are unsecured and interest-free.

16 LONG-TERM INVESTMENTS

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Club debenture, at cost	<u>1,075</u>	<u>855</u>

17 SHORT-TERM INVESTMENTS

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Unlisted investments outside of Hong Kong:		
At estimated realisable value, net of provision	—	5,589
Other related advances, net of provision	—	920
	<u>—</u>	<u>6,509</u>
Listed investments outside of Hong Kong, at market value	982	634
	<u>982</u>	<u>7,143</u>

18 INVENTORIES

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Raw materials	39,557	30,867
Work in progress	13,803	11,853
Finished goods	<u>16,538</u>	<u>20,409</u>
	<u>69,898</u>	<u>63,129</u>
Provision for slow-moving inventories	<u>5,860</u>	<u>5,637</u>

19 DEFERRED TAXATION

The principal components of the Group's deferred tax assets not recognised are as follows:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Accelerated depreciation allowances	(1,311)	(1,334)
Tax losses carried forward	<u>6,034</u>	<u>5,265</u>
At 31st December	<u>4,723</u>	<u>3,931</u>

Deferred taxation has not been provided on the revalued assets as the revaluations are not deemed to be a timing difference.

20 OTHER PAYABLES AND ACCRUED LIABILITIES

Last year's balance included an amount of HK\$10,053,000 advanced from a customer, which was unsecured, borne interest at United States dollar prime rate per annum. This advance was fully repaid during the current year.

21 OTHER LOAN

The amount is unsecured, bears interest at 1% per month and is repayable in March 2000.

22 SHARE CAPITAL

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
500,000,000 ordinary shares of HK\$0.10 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
177,602,040 ordinary shares of HK\$0.10 each	<u>17,760</u>	<u>17,760</u>

At the balance sheet date, the Company had outstanding 12,000,000 share options which were granted to certain directors, officers and employees of the Company and its subsidiaries. The share options entitle the registered holders to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at HK\$0.507 per share at anytime on or before 31st July, 2002. No such options were exercised during the year. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 12,000,000 additional ordinary shares and cash proceeds of approximately HK\$6,084,000 before the related issue expenses.

23 RESERVES

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Non- distributable reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 1998							
— as previously reported	23,083	39,185	(3,067)	3,873	—	136,448	199,522
— effect of change in accounting policy (note 1(q))	—	—	—	—	—	(1,082)	(1,082)
At 1st January, 1998 as restated	23,083	39,185	(3,067)	3,873	—	135,366	198,440
Goodwill arising on acquisition of subsidiaries	—	(1,368)	—	—	—	—	(1,368)
Share of reserve movement of jointly controlled entities	—	—	22	—	1,171	(1,171)	22
Loss for the year							
— as previously reported	—	—	—	—	—	(42,824)	(42,824)
— effect of change in accounting policy (note 1(q))	—	—	—	—	—	(3,456)	(3,456)
Loss for the year as restated	—	—	—	—	—	(46,280)	(46,280)
At 31st December, 1998 as restated	<u>23,083</u>	<u>37,817</u>	<u>(3,045)</u>	<u>3,873</u>	<u>1,171</u>	<u>87,915</u>	<u>150,814</u>
Company and subsidiaries as restated	23,083	37,817	(3,067)	3,873	—	95,017	156,723
Associated companies	—	—	—	—	—	(1,624)	(1,624)
Jointly controlled entities	—	—	22	—	1,171	(5,478)	(4,285)
At 31st December, 1998 as restated	<u>23,083</u>	<u>37,817</u>	<u>(3,045)</u>	<u>3,873</u>	<u>1,171</u>	<u>87,915</u>	<u>150,814</u>
At 1st January, 1999							
— as previously reported	23,083	37,817	(3,045)	3,873	1,171	92,453	155,352
— effect of change in accounting policy (note 1(q))	—	—	—	—	—	(4,538)	(4,538)
At 1st January, 1999 as restated	23,083	37,817	(3,045)	3,873	1,171	87,915	150,814
Realisation of revaluation gain on disposal of leasehold land and buildings	—	—	—	(96)	—	96	—
Profit for the year	—	—	—	—	—	18,040	18,040
At 31st December, 1999	<u>23,083</u>	<u>37,817</u>	<u>(3,045)</u>	<u>3,777</u>	<u>1,171</u>	<u>106,051</u>	<u>168,854</u>
Company and subsidiaries	23,083	37,817	(3,067)	3,777	—	99,003	160,613
Associated companies	—	—	—	—	—	(1,625)	(1,625)
Jointly controlled entities	—	—	22	—	1,171	8,673	9,866
	<u>23,083</u>	<u>37,817</u>	<u>(3,045)</u>	<u>3,777</u>	<u>1,171</u>	<u>106,051</u>	<u>168,854</u>

23 RESERVES *(continued)*

The contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired by the Group, pursuant to the corporation reorganisation of the Group in September 1991, and the nominal value of the Company's shares issued in exchange thereof.

24 LONG-TERM LIABILITIES

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Wholly repayable within five years		
Secured bank loans	1,319	3,111
Obligations under finance leases	11,556	7,781
	<u>12,875</u>	<u>10,892</u>
Current portion of long-term liabilities	(6,323)	(5,205)
	<u>6,552</u>	<u>5,687</u>

At 31st December, 1999, the Group's long-term liabilities were repayable as follows:

	Bank loans		Obligations under finance leases	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Within one year	323	1,868	6,000	3,337
In the second year	351	304	3,778	3,337
In the third to fifth year	645	939	1,778	1,107
	<u>1,319</u>	<u>3,111</u>	<u>11,556</u>	<u>7,781</u>

25 COMMITMENTS**(a) Capital commitments**

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Contracted but not provided for	<u>782</u>	<u>503</u>

25 COMMITMENTS (continued)

(b) Commitments under operating leases

At 31st December, 1999, the Group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	1999	1999	1998	1998
	Land and	Others	Land and	Others
	buildings		buildings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	221	78	48	—
In the second to fifth year	2,585	—	3,109	—
	<u>2,806</u>	<u>78</u>	<u>3,157</u>	<u>—</u>

26 CONTINGENT LIABILITIES

	Company	
	1999	1998
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:		
Subsidiaries	47,500	88,000
Jointly controlled entities	23,000	22,325
	<u>70,500</u>	<u>110,325</u>
Extent of the guaranteed facilities utilised by:		
Subsidiaries	22,741	45,813
Jointly controlled entities	17,681	18,309
	<u>40,422</u>	<u>64,122</u>

In addition, the Company has given corporate guarantee to secure other loan of HK\$10,000,000 (1998: HK\$15,000,000) borrowed by a subsidiary.

27 RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with its jointly controlled entities, Digital Lighting Holdings Limited and its subsidiaries (the “DL Group”):

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of finished goods to the DL Group	33,939	85,923
Purchase of finished goods from the DL Group	86,953	193,107
Interest income received from the DL Group	1,623	3,491
Reimbursement of service charge to the DL Group	61	2,098
Rental income received from the DL Group (net)	748	726
Sales of fixed assets to the DL Group	<u>790</u>	<u>944</u>

Sales of finished goods to the DL Group were made at cost plus a mark-up of 1.5%.

Interest income received from the DL Group was calculated based on rates disclosed in note 14 to the accounts.

Reimbursement of service charge to the DL Group represented reimbursement of actual general and administrative expenses paid by the DL Group on behalf of the Group.

All other transactions were conducted at current market prices as determined between the two parties.

In the opinion of the directors, the above transactions arose in the ordinary course of business.

Details of related party balances are set out elsewhere in the accounts.

1. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is a statement of the pro forma unaudited adjusted consolidated net tangible assets of the Enlarged Group immediately following the Transaction Completion Date. It is based on the audited consolidated financial statements of the Group as at 31st December, 1999, adjusted to reflect the effect of the Acquisition, the Equity Transfer, the Disposal, the Subscriptions, the Placing and certain adjustments since 31st December, 1999.

	<i>HK\$'000</i>	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31st December, 1999		186,614
Add: Unaudited consolidated net loss attributable to the Shareholders for the four months ended 30th April, 2000		(7,215)
Add: Goodwill on acquisition of additional interests in a subsidiary		<u>(200)</u>
Unaudited consolidated net assets of the Group as at 30th April, 2000		179,199
The Acquisition		
Founder Data Group		
(a) Value of business acquired		
— Pro forma net assets as at 31st May, 2000 (<i>note (i)</i>)	18,799	
— Surplus arising in business valuation	<u>464,801</u>	
	483,600	
(b) Discount on acquisition	<u>(44,040)</u>	
(c) Consideration to be satisfied by the issue of Shares	<u>439,560</u>	
The Equity Transfer		
Datacom		
(a) Value of business acquired		
— Pro forma net assets as at 31st May, 2000 (<i>note (ii)</i>)	258	
— Surplus arising in business valuation	<u>83,069</u>	
	83,327	
(b) Premium on acquisition	<u>9,913</u>	
(c) Consideration to be satisfied by the issue of Shares	<u>93,240</u>	
Total consideration for the Acquisition and the Equity Transfer	532,800	
Less: Estimated expenses relating to the Acquisition and the Equity Transfer	<u>(10,000)</u>	
Increase in net assets of the Group after the Acquisition and the Equity Transfer		522,800

	<i>HK\$'000</i>	<i>HK\$'000</i>
The Disposal		
(a) Pro forma net assets of the MITI Group as at 30th April, 2000	(61,476)	
(b) Net proceeds from the Disposal	<u>61,476</u>	
Increase in net assets of the Group after the Disposal		—
Net proceeds from the Placing and the Subscriptions		104,429
Net proceeds from the issue of the Shares arising from the exercise of share options after 30th April, 2000		<u>1,825</u>
Pro forma unaudited adjusted consolidated net assets of the Enlarged Group		808,253
Less: Net surplus arising on business valuation in respect of the Acquisition and the Equity Transfer		<u>(513,743)</u>
		294,510
Less: Intangible assets of the Founder Data Group as at 31st May, 2000		(244)
Less: Intangible assets of the Group as at 30th April, 2000		<u>(4,385)</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Enlarged Group		<u><u>289,881</u></u>

Note (i): Pro forma net assets of the Founder Data Group as at 31st May, 2000 have been prepared on the assumption that 60.1% interests in AdTargeting, at that time held by Beijing Founder Electronics Co., Ltd had been transferred to Founder Data on that date.

Note (ii): Pro forma net assets of Datacom as at 31st May, 2000 have been prepared on the assumption that 19.9% interests in AdTargeting had been transferred by Yahoo! to Datacom on that date.

2. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a pro forma statement of the assets and liabilities of the Enlarged Group based on the unaudited consolidated balance sheet of the Group as at 30th April, 2000, the unaudited pro forma combined net assets of the Founder Data Group and Datacom as at 31st May, 2000, and the unaudited pro forma combined net assets of the MITI Group as at 30th April, 2000, assuming, inter alia, that the completion of the Acquisition, the Equity Transfer, the Disposal, the Placing and the Subscriptions had taken place on 31st May, 2000 and taking into account the effect of certain adjustments of the Group since 30th April, 2000.

		(Note (i))				Expenses for		
	The Group	Founder Data Group	(Note (ii)) Datacom	Disposal of MITI Group	Subscriptions and Placing	Acquisition and Equity Transfer	Exercise of share options	The Enlarged Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Intangible Assets	4,385	244	—	—	—	—	—	4,629
Fixed Assets	104,204	2,195	—	(4,385)	—	—	—	102,014
Construction in Progress	306	—	—	—	—	—	—	306
Investments in Jointly Controlled Entities	49,284	—	—	(49,284)	—	—	—	—
Investments in Associated Companies	—	3,750	258	—	—	—	—	4,008
Long-term Investments	1,075	—	—	—	—	—	—	1,075
Current Assets	157,097	21,529	—	49,699	104,429	—	1,825	334,579
Total Assets	316,351	27,718	258	(3,970)	104,429	—	1,825	446,611
Current Liabilities	(127,373)	(6,646)	—	2,720	—	(10,000)	—	(141,299)
Long-term Liabilities	(7,230)	—	—	—	—	—	—	(7,230)
Minority Interests	(2,549)	(2,273)	—	1,250	—	—	—	(3,572)
	<u>179,199</u>	<u>18,799</u>	<u>258</u>	<u>—</u>	<u>104,429</u>	<u>(10,000)</u>	<u>1,825</u>	<u>294,510</u>

Note (i): Pro forma net assets of the Founder Data Group as at 31st May, 2000 have been prepared on the assumption that 60.1% interests in AdTargeting, at that time held by Beijing Founder Electronics Co., Ltd, had been transferred to Founder Data on that date.

Note (ii): Pro forma net assets of Datacom as at 31st May, 2000 have been prepared on the assumption that 19.9% interests in AdTargeting had been transferred by Yahoo! to Datacom on that date.

3. INDEBTEDNESS

At the close of business on 30th June, 2000, the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$55.9 million, comprising secured bank borrowings of approximately HK\$36.4 million, unsecured bank borrowings of approximately HK\$0.3 million, obligations under finance leases and hire purchase contracts of approximately HK\$9.2 million, and unsecured loan of approximately HK\$10 million. The bank borrowings of the Enlarged Group were secured by certain of its leasehold properties.

There is a pending legal proceeding in which a subsidiary of the Company is the plaintiff. There are also potential products liability claims against a previous subsidiary of the Company in which the Company is the indemnifier. The products liability claims are fully covered by products liability insurance. The directors of the Company consider that, after taking into account the legal advice obtained, no provision for any potential liabilities is considered necessary.

In addition, the Company has provided corporate guarantees of HK\$23 million to secure banking facilities granted to jointly controlled entities. The amount utilised under such banking facilities was approximately HK\$17.2 million as at 30th June, 2000.

Save as aforesaid or as otherwise disclosed in this circular, and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 30th June, 2000, any outstanding mortgages, charges, debentures or other loan capital, bank loans and overdrafts or other similar indebtedness, liabilities under acceptance or acceptable credits, obligations under hire purchase contracts or finance leases, guarantees or other material contingent liabilities.

Save as disclosed in this circular, the directors of the Company are not aware of any material adverse changes in the Group's indebtedness, banking facilities and contingent liabilities since 30th June, 2000.

Save as disclosed in this circular, the directors of Founder are not aware of any material adverse changes in the Founder Data Group's indebtedness, banking facilities and contingent liabilities since 30th June, 2000.

4. WORKING CAPITAL

The directors of the Company and of Founder are of the opinion that, based on the expected cash flows, and taking into consideration the expected net proceeds arising from the Placing, the Subscriptions and the Disposal, and assuming that the banking facilities of the Enlarged Group will not be withdrawn, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

5. NO MATERIAL CHANGE

The directors of the Company confirmed that there have not been any material adverse changes in the financial position of the Group since 30th April, 2000.

The directors of Founder confirmed that there have not been any material adverse changes in the financial position of the Founder Data Group since 31st May, 2000.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

9th September, 2000

The Directors
Management Investment & Technology (Holdings) Limited
Asia Financial Capital Limited

Dear Sirs,

We have performed the procedures detailed below on the unaudited consolidated results of Management Investment & Technology (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the four months ended 30th April, 2000 (“Unaudited Results”), as set out in section 1 of Appendix IV of the circular issued by the Company dated 9th September, 2000, of which this letter forms part.

Respective responsibilities of directors and reporting accountants

The Unaudited Results has been prepared by the directors of the Company using accounting policies consistent with those adopted by the Group in its accounts for the year ended 31st December, 1999. The Unaudited Results is the sole responsibility of the directors of the Company and has been approved by them. Our responsibility is to report on the results of the procedures we have performed.

Procedures

Our procedures are summarised as follows:

1. We made enquiries of the directors of the Company as to the accounting policies adopted in the preparation of the Unaudited Results;

2. We compared the accounting policies adopted in the preparation of the Unaudited Results with those adopted in the preparation of the audited consolidated accounts of the Group for the year ended 31st December, 1999; and
3. We checked the calculations.

These procedures do not constitute an audit performed in accordance with auditing standards generally accepted in Hong Kong, and accordingly we do not express an audit opinion on the Unaudited Results.

Conclusion

Based on our procedures, so far as the accounting policies and calculations are concerned, the Unaudited Results has been properly compiled on a basis consistent in all material respects with accounting policies normally adopted by the Group.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

9th September, 2000

The Directors
Management Investment & Technology (Holdings) Limited
BOCI Asia Limited

Dear Sirs,

Review of the forecast revenue of Founder Data Corporation International Limited and its subsidiaries for the period from 1st July, 2000 to 30th June, 2001

We have reviewed the accounting policies and calculations adopted in arriving at the forecast revenue of Founder Data Corporation International Limited (“FDC”) and its subsidiaries (“FDC Group”) of approximately US\$10.1 million for the period from 1st July, 2000 to 30th June, 2001 (the “Forecast”) as set out in the business valuation report prepared by Sallmanns (Far East) Limited (“Sallmanns”) dated 9th September, 2000 in Appendix II of the circular of Management Investment & Technology (Holdings) Limited dated 9th September, 2000 (the “Circular”).

The Forecast, for which the directors of Founder Holdings Limited (the “Founder Directors”) are solely responsible, has been prepared by them based on the unaudited results of FDC Group for the month ended 31st July, 2000 and the forecast of the results of FDC Group for the remaining eleven months ending 30th June, 2001.

We emphasise that the Forecast relates to future events and is based on assumptions which may not remain valid for the whole of the twelve months to 30th June, 2001. Consequently, it cannot be relied upon to the same extent as information derived from the audited accounts for completed accounting periods. We express no opinion as to how closely the actual revenue for the twelve months ending 30th June, 2001 will correspond to the Forecast.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the assumptions made by the Founder Directors as set out in Appendix V of the Circular, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by Management Investment & Technology (Holdings) Limited as set out in Appendix III of the Circular.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong



ASIA FINANCIAL CAPITAL
A Member of Asia Financial Group

Asia Financial Capital Limited
12th Floor, Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

9th September, 2000

The Directors
Management Investment & Technology (Holdings) Limited

Dear Sirs,

**UNAUDITED CONSOLIDATED RESULTS OF
MANAGEMENT INVESTMENT & TECHNOLOGY (HOLDINGS) LIMITED
AND ITS SUBSIDIARIES FOR THE FOUR MONTHS ENDED 30TH APRIL, 2000**

We refer to the unaudited consolidated results of Management Investment & Technology (Holdings) Limited (the “Company”) and its subsidiaries for the four months ended 30th April, 2000 (the “Unaudited Results”), for which the directors of the Company (“Directors”) are solely responsible, as set out in the section headed “Pro forma statement of unaudited adjusted consolidated net tangible assets of the Enlarged Group” in Appendix IV of the circular of the Company dated 9th September, 2000 (the “Circular”). It should be noted that the Unaudited Results has been prepared for the purpose of the Circular and is subject to adjustment upon audit and/or changes as a result of any subsequent events which may arise after the Latest Practicable Date prior to the printing of the Circular.

We have discussed with you the accounting policies adopted in the preparation of the Unaudited Results and we have also considered the letter dated 9th September, 2000 addressed to yourselves and ourselves by PricewaterhouseCoopers, the auditors of the Company. On the basis of the accounting policies adopted in the preparation of the Unaudited Results and the review performed by PricewaterhouseCoopers, we are satisfied that the Unaudited Results has been compiled with due care and consideration.

Yours faithfully,
For and on behalf of
Asia Financial Capital Limited
Alice Kan
Managing Director

**BOCI Asia Limited**

35th Floor, Bank of China Tower
1 Garden Road
Hong Kong

9th September, 2000

The Directors
Founder Holdings Limited

Dear Sirs,

Review of the forecast revenue of Founder Data Corporation International Limited and its subsidiaries for the period from 1st July, 2000 to 30th June, 2001

We refer to the proposed acquisition of the entire issued share capital of Founder Data by the Company from Founder Electronics, F2 Consultant and the Other Founder Data Shareholders pursuant to the Sale and Purchase Agreement dated 17th May, 2000 relating to the Acquisition. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them in the circular of Management Investment & Technology (Holdings) Limited dated 9th September, 2000 of which this letter forms part (the “Circular”).

We refer to the forecast revenue of the Founder Data Group of approximately US\$10.1 million for the 12 month period ending 30th June, 2001 (the “Forecast”) as set out in the summary business valuation prepared by Sallmanns dated 9th September, 2000, the text of which is set out in Appendix II of the Circular. The Forecast, for which the directors of Founder are solely responsible, has been prepared by them based on the forecast of the operations of the Founder Data Group for the 12 month period ending 30th June, 2001.

We have discussed with the directors and management staff of the Founder Data Group the bases and assumptions upon which the Forecast is prepared (which are set out in the Schedule to Appendix V of the Circular). We have also considered the letter issued by PricewaterhouseCoopers, the reporting accountants of the Founder Data Group, of even date addressed to the directors of MIT and ourselves regarding the accounting policies and calculations adopted in arriving at the Forecast.

We emphasize that the Forecast relates to future events and is based on assumptions which may not remain valid for the whole of the 12 month period ending 30th June, 2001. Consequently, it cannot be relied upon to the same extent as information derived from the audited accounts for completed accounting periods. We express no opinion as to how closely the actual revenue for the 12 month period ending 30th June, 2001 will correspond to the Forecast.

Based on the above, we are of the opinion that the Forecast has been prepared with due care and consideration.

Yours faithfully,
For and on behalf of
BOCI Asia Limited
Wong Wai Ming
Director



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

9th September, 2000

The Directors
Management Investment & Technology (Holdings) Limited

Dear Sirs,

We have reviewed the compilation of the cash flow forecast, including working capital requirements, of Management Investment & Technology (Holdings) Limited (the “Company”) and its subsidiaries and Founder Data Corporation International Limited and its subsidiaries for the period up to 30th June, 2001 (the “Cash Flow Forecast”). The Cash Flow Forecast, for which the directors of the Company are solely responsible, takes account of the forecast results for the same period.

We emphasise that the Cash Flow Forecast relates to future events and is based on assumptions which may not remain valid for the whole of the relevant period. Consequently, it cannot be relied upon to the same extent as information derived from the audited accounts for completed accounting periods. For these reasons, we express no opinion as to how closely the actual cash flows achieved will correspond to the Cash Flow Forecast.

The Cash Flow Forecast has been compiled on the basis of certain principal assumptions (the “Assumptions”) made by the directors of the Company, in particular the principal assumptions contained in the following statement as set out on page 154 of the circular of the Company dated 9th September, 2000 (the “Circular”).

“The directors of the Company and of Founder are of the opinion that, based on the expected cash flows, and taking into consideration the expected net proceeds arising from the Placing, the Subscriptions and the Disposal, and assuming that the banking facilities of the Enlarged Group will not be withdrawn, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.”

In our opinion, based on our review, the Cash Flow Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the Assumptions.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

**BOCI Asia Limited**

35th Floor, Bank of China Tower
1 Garden Road
Hong Kong

9th September, 2000

The Directors
Founder Holdings Limited

Dear Sirs,

Review of statement of working capital of the Founder Data Group for the period up to 30th June, 2001

We refer to the proposed acquisition of the entire issued share capital of Founder Data by the Company from Founder Electronics, F2 Consultant and the Other Founder Data Shareholders pursuant to the Sale and Purchase Agreement dated 17th May, 2000 relating to the Acquisition. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them in the circular of Management Investment & Technology (Holdings) Limited dated 9th September, 2000 of which this letter forms part (the "Circular").

We refer to the projected working capital statement of the Founder Data Group for the period up to 30th June, 2001 (the "Statement") which has been prepared by the directors of Founder, for which they are solely responsible. We draw your attention to the following points in relation to the Statement:

1. The Statement relates to future events and is based on assumptions which may not be valid throughout the whole period covered by the Statement. Deviations from the assumptions may cause material differences between the Statement and the actual cash flow of the Founder Data Group.
2. The Statement is compiled based on the assumption that MIT will make available to the Founder Data Group the proceeds of the Placing, the Subscriptions and the Disposal to finance the operations of the Founder Data Group and the directors of Founder are of the opinion that the Founder Data Group will have sufficient working capital for its present requirements up to 30th June, 2001.

The directors of Founder have confirmed to us that the Statement, so far as accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by them.

Subject to the above, we are of the view that the Statement has been compiled with due care and consideration.

Yours faithfully,
For and on behalf of
BOCI Asia Limited
Wong Wai Ming
Director



Asia Financial Capital Limited
12th Floor, Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

9th September, 2000

The Directors
Management Investment & Technology (Holdings) Limited

Dear Sirs,

We refer to the working capital statement of Management Investment & Technology (Holdings) Limited (the “Company”), Founder Data Corporation International Limited, Datacom Developments Limited and their subsidiaries (the “Enlarged Group”) which has been prepared by the directors (the “Directors”) of the Company and Founder Holdings Limited (“Founder”) and for which the Directors are solely responsible, as set out on page 154 of the circular of the Company dated 9th September, 2000 (the “Circular”).

We have discussed with the Company, PricewaterhouseCoopers, the auditors of the Company, and BOCI Asia the cash flow forecast of the Enlarged Group for the year from 1st July, 2000 to 30th June, 2001 (the “Cash Flow Forecast”). The Cash Flow Forecast has been reviewed and provided comfort by PricewaterhouseCoopers and BOCI Asia and has been compiled on the basis of certain principal assumptions contained in the following statement as set out below:

“...based on the expected cash flows, and taking into consideration the expected net proceeds arising from the Placing, the Subscriptions and the Disposal, and assuming that the banking facilities of the Enlarged Group will not be withdrawn, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.”

We emphasise that the Cash Flow Forecast relates to future events and is based on assumptions which may not remain valid for the whole of the relevant period. Consequently, it cannot be relied upon to the same extent as information derived from the audited accounts for completed accounting periods. For these reasons, we express no opinion as to how closely the actual cashflows achieved will correspond to the Cash Flow Forecast.

We have also considered the respective letters dated 9th September, 2000 addressed to the directors of the Company from PricewaterhouseCoopers and addressed to the directors of Founder from BOCI Asia regarding the Cash Flow Forecast. On the basis of the Cash Flow Forecast made by the Directors and the review performed by PricewaterhouseCoopers and BOCI Asia, we are of the opinion that, subject to the principal assumptions including those stated above and the realisation of the working capital projection, the aforesaid working capital statement, for which the Directors are solely responsible, has been made after due and careful consideration.

Yours faithfully,
For and on behalf of
Asia Financial Capital Limited
Alice Kan
Managing Director

SCHEDULE: BASES AND ASSUMPTIONS

The directors of Founder have prepared the forecast revenue of the Founder Data Group for the period from 1st July, 2000 to 30th June, 2001 (the "Forecast"). The Forecast, for which the directors of Founder are solely responsible, has been prepared by them based on the forecast of the operations of the Founder Data Group for the period from 1st July, 2000 to 30th June, 2001. The summary business valuation prepared by Sallmanns dated 9th September, 2000, the text of which is set out in Appendix II of the Circular has adopted the Forecast.

The directors of Founder have adopted the following assumptions in the preparation of the Forecast:

- (i) there will be no material change in the existing political, legal, technological, fiscal or economic conditions which adversely affect the business of the Founder Data Group;
- (ii) operational and contractual terms bound by contracts and agreements will be honoured;
- (iii) the competitive advantages and disadvantages of the Founder Data Group do not change significantly during the period covered by the Forecast;
- (iv) there will be no material changes in exchange rates or interest rates from those presently prevailing;
- (v) AdTargeting is appointed the exclusive on-line advertising agent of the website of yahoo.com.cn during the period from 1st March, 2000 to 28th February, 2001 under the terms and conditions of the Advertising Sales Representative Agreement;
- (vi) there will be no significant increase in internet access fee imposed in the PRC, such that the projected increase of internet users in the PRC in a few years will conform with current forecasts, and the forecasted growth of visitors to the websites of yahoo.com.cn and the members of SMA can be achieved;
- (vii) there will be no restrictions on setting up websites imposed by the PRC government so that the websites of the members of SMA can be maintained;
- (viii) the administration policies on royalty fees of news broadcast in the PRC will not be subject to substantial changes, which would result in the free posting of news on websites;
- (ix) the PRC government will not prohibit the broadcasting of news by independent internet content providers so that internet content providers can continue to broadcast news and use the contents exchange service of EC-Media;

- (x) the advertising agent system of the PRC will not be subject to material changes. EC-Media shall only post advertisements from advertising agents and not from advertisers directly. Therefore, the advertisement trading platform of EC-Media can thereby be maintained;
- (xi) the Founder Data Group is able to subscribe bandwidth from the telecommunications authorities relatively easily at the current rate for the internet connection for its ad-server as well as content and advertisement exchange platforms;
- (xii) the PRC government will not impose any regulations to require government agents and enterprises to use web security products of designated state-owned entities, which would include products of EC-Tech;
- (xiii) the PRC government will not promulgate rules or regulations requiring all e-business system integration projects to be contracted by designated state-owned entities, which would include EC-Tech;
- (xiv) the PRC government will not restrict the employment of non-resident graduates in Beijing so that the Founder Data Group can retain outperforming graduates from outside Beijing to meet its development needs; and
- (xv) the actual number of pageview in the first two quarters of 2000 attained by yahoo.com.cn (upon which the magnitude of the revenue projection of AdTargeting was based) was more than that adopted by the management of the Founder Data Group in the revenue projection of AdTargeting.

This Appendix serves as an explanatory statement as required, pursuant to Rule 10.06(1)(b) of the Listing Rules, to be given to Shareholders in order for them to consider the general mandate for the repurchase by MIT of its own Shares to be sought at the Special General Meeting (the “Repurchase Mandate”).

(A) STOCK EXCHANGE RULES

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders’ approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the company’s memorandum of association and bye-laws and the Companies Act 1981 of Bermuda (as amended). A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases by the company may be made out of capital paid up on the shares to be repurchased, funds of the company which would otherwise be available for dividend or distribution or out of a fresh issue of shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of the funds of the company which would otherwise be available for dividend or distribution or from sums standing to the credit of the share premium account of the company.

(iii) Trading restrictions

The total number of shares which a company may repurchase on the Stock Exchange are shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, the repurchases of securities on the Stock Exchange in any calendar month are limited to a maximum of 25% of the trading volume of such securities on the Stock Exchange in the immediately preceding calendar month. The Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may request.

(iv) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under Bermuda law, a company's repurchased shares will be treated as cancelled and the amount of the company's issued capital shall be diminished by the nominal value of these shares accordingly, but the purchase of shares shall not be taken as reducing the amount of the company's authorised share capital.

(v) Suspension of repurchase

A company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of its interim report, a company (other than an investment company listed pursuant to the provisions of Chapter 21 of the Listing Rules) may not repurchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a company has breached the Listing Rules.

(vi) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company is required to disclose in its annual report details regarding repurchases of securities made during the year, including a monthly breakdown of the number of securities repurchased and the aggregate prices paid.

(vii) Connected persons

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or any of their associates (as defined in the Listing Rules) and a connected person shall not knowingly sell his securities to the company on the Stock Exchange.

(B) SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 181,202,040 Shares. Pursuant to the Sale and Purchase Agreement, the Subscription Agreements, the Equity Transfer Agreement and the Placing Agreements, an aggregate of 639,360,000 new Shares will be issued and, subject to the completion of all those agreements, the issued share capital of the Company will comprise 820,562,040 Shares.

The exercise in full of the Repurchase Mandate, on the basis of 820,562,040 Shares in issue, would result in up to 82,056,204 Shares being authorised to be repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(C) REASONS FOR REPURCHASES

The future directors of the Company believe that it is in the best interest of the Company and its Shareholders for the directors of the Company to have a general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and such repurchases will only be made if the directors of the Company believe that such repurchases will benefit the Company and its Shareholders.

(D) FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and bye-laws, the Listing Rules and the applicable laws of Bermuda.

On the basis of the current financial position of the Group as disclosed in this circular and taking into account the current working capital position of the Group, the directors of the Company consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this circular. However, the directors of the Company do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing level which in the opinion of the directors of the Company are from time to time appropriate for the Group.

(E) GENERAL

None of the directors of the Company nor, to the best of their knowledge having made all reasonable enquiries, any of their associates has a present intention to sell any Shares to the Company if the Repurchase Mandate is approved.

The directors of the Company have undertaken to the Stock Exchange that, so far as the same may be applicable, they will only exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

If, as a result of a share repurchase, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Upon Completion, it is expected that Founder and parties acting in concert with it will hold in aggregate 470.6 million Shares, representing approximately 57.4% of the Enlarged Issued Share Capital. Exercise in full of the Repurchase Mandate would result in the repurchase of 82,056,204 Shares, and the aggregate shareholding in the Company of Founder and parties acting in concert with it would increase to 63.7%. The directors of the Company are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any purchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is approved.

The Company has not purchased any of its Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this circular.

(A) RESPONSIBILITY FOR THE CONTENTS OF THIS CIRCULAR

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company, the Founder Data Group and the Founder Group.

The information contained in this circular (other than that relating to the Founder Data Group and the Founder Group) is supplied by the Company. The directors of the Company collectively and individually accept full responsibility for the accuracy of such information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this circular have been arrived at after due and careful consideration and that there are no other facts not contained in this circular the omission of which may make any statement in this circular (other than that relating to the Founder Data Group and the Founder Group) misleading.

The information contained in this circular relating to the Founder Data Group and the Founder Group (other than that relating to the Company and the MIT Group) is supplied by the Founder Group. The directors of Founder collectively and individually accept full responsibility for the accuracy of such information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this circular have been arrived at after due and careful consideration and that there are no other facts not contained in this circular the omission of which may make any statement in this circular (other than that relating to the Company and the MIT Group) misleading.

The issue of this circular has accordingly been approved by the respective directors of the Company and Founder.

(B) FURTHER INFORMATION ABOUT THE COMPANY**1. Share Capital**

The authorised and issued share capital of the Company as at the Latest Practicable Date and the resulting authorised and issued share capital of the Company after a proposed increase in authorised share capital and issue of Shares pursuant to the Transactions as disclosed in this circular are shown below:

		Nominal Value <i>HK\$</i>
<i>Authorised:</i>		
500,000,000	Shares as at the Latest Practicable Date	50,000,000
2,500,000,000	Shares proposed to be created by an increase in authorised share capital as set out in the ordinary resolution numbered 2 in the notice of the SGM	250,000,000
<u>3,000,000,000</u>		<u>300,000,000</u>
<i>Issued and fully paid:</i>		
181,202,040	Shares as at the Latest Practicable Date	18,120,204
439,560,000	Shares proposed to be allotted and issued to the Vendors as set out in the ordinary resolution numbered 1 in the notice of the SGM	43,956,000
31,000,000	Shares proposed to be allotted and issued to Founder and Mr. Cheung as set out in the ordinary resolutions numbered 5 and 6 in the notice of the SGM respectively	3,100,000
93,240,000	Shares proposed to be allotted and issued to Yahoo! as set out in the ordinary resolution numbered 8 in the notice of the SGM	9,324,000
75,560,000	Shares proposed to be allotted and issued to 6 placees as set out in the ordinary resolution numbered 9 in the notice of the SGM	7,556,000
<u>820,562,040</u>		<u>82,056,204</u>

2. Disclosure of Interests

As at the Latest Practicable Date, the interests of the directors and the chief executives of the Company in the shares of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be disclosed in accordance with the Takeovers Code or to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein were as follows:

(a) The Company

Name of director	Share options held		Shares held	
	Number	Nature of interest	Number	Nature of interest
Mr. Richard Chih Shin Yung	3,000,000	Personal	97,680,000	Corporate (<i>Note i</i>)
Mr. Richard Yung, Jr.	2,400,000	Personal	—	—
Mr. King Shing Lee	2,400,000	Personal	—	—

All the share options of the above directors of the Company are exercisable in the period from 1st August, 1997 to 31st July, 2002 at an exercise price of HK\$0.507 per Share. Up to the Latest Practicable Date, no such share options of the above directors of the Company had been exercised.

The share options held by Mr. King Shing Lee will not lapse upon his resignation as a director of the Company as he is still a director of certain subsidiaries of the Company.

Apart from the share options mentioned above, none of the directors of the Company (including their spouse and children under 18 years of age) had been granted, or exercised, any rights to subscribe for Shares of the Company.

(b) Associated corporations

Name of director	Associated corporation in which shares are held	Number of shares held	Nature of interest
Mr. Richard Chih Shin Yung	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate (<i>Note i</i>)
	Ricwinco Investment Limited	2 shares	Personal (<i>Note ii</i>)
Dr. James Sai Wing Wong	Management Investment & Technology Company Limited	7,000,000 non-voting deferred shares	Corporate (<i>Note iii</i>)

Notes:

- (i) Mr. Richard Chih Shin Yung is interested in these shares through Ricwinco.
- (ii) Mr. Richard Chih Shin Yung, by virtue of his interests in the share capital of the Company as described above, is deemed to be interested in the shares of the subsidiaries and associated corporations of the Company held through the Company by virtue of the provisions of the SDI Ordinance.
- (iii) Dr. James Sai Wing Wong is interested in these shares through Chinney Investments, Limited, a 53.6% subsidiary of Chinney Holdings Limited in which Dr. James Sai Wing Wong and his family have beneficial interests.

Except as disclosed in this circular, none of the directors or the chief executives of the Company is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant to the business of the Group taken as a whole.

Since 31st December, 1999, the date to which the latest published audited financial statements of the Company were prepared, none of the directors of the Company nor any experts named in paragraph 8 under “FURTHER INFORMATION ABOUT THE COMPANY” in this Appendix has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

3. Substantial Shareholders

As at the Latest Practicable Date, the undermentioned are the substantial shareholders of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Shares held	Approximate percentage of shareholding
Ricwinco Investment Limited	97,680,000	53.91% (<i>Note i</i> above)
Chinney Alliance Group Limited	35,520,000	19.60%

4. Additional Disclosure of Shareholdings and Dealings Pursuant to the Takeovers Code

During the period from 24th May, 2000 to the Latest Practicable Date:

- (a) none of the directors of the Company had dealt for value in any Shares; and
- (b) none of the subsidiaries of the Company, any pension funds of the Company or any of its subsidiaries had dealt for value in any Shares.

5. Service Contracts

As at the Latest Practicable Date, no director of the Company had an existing or proposed service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

6. Material Contracts

Members of the Group have entered into the following contracts (not being a contract entered into in the ordinary course of business carried on by the Group) within the two years immediately preceding the date of the Announcement which are or may be material in relation to the business of the Group taken as a whole:

- (a) a shareholders' agreement dated 28th December, 1999 entered into between the Company and Shanghai FM Co., Ltd. relating to the establishment, business, management and operation of a joint venture company, MFM Technology (HK) Limited;
- (b) the Sale and Purchase Agreement;

- (c) the Subscription Agreements;
- (d) the Escrow Agreement;
- (e) the Disposal Agreement;
- (f) the Management Agreement;
- (g) the Equity Transfer Agreement; and
- (h) the Placing Agreements.

7. Litigation

There is a pending legal proceeding in which a subsidiary of the Company is the plaintiff. There are also potential products liability claims against a previous subsidiary of the Company in which the Company is the indemnifier. The products liability claims are fully covered by products liability insurance. The directors of the Company consider that, after taking into account the legal advice obtained, no provision for any potential liabilities is considered necessary.

Save as disclosed above, no member of the Group is engaged in any litigation or arbitration of material importance and the directors of the Company are not aware of any litigation or claims of material importance pending or threatened against any member of the Group as at the Latest Practicable Date.

8. Qualification of Experts

The following are the qualifications of the experts who have given an opinion or advice which is contained in this circular:

Name	Qualification
Asia Financial	Registered Investment Adviser and Registered Dealer
BOCI Asia	Registered Dealer
PricewaterhouseCoopers	Certified Public Accountants
Sallmanns	Valuers, Chartered Surveyors

9. Consents of Experts

Each of Asia Financial, BOCI Asia, PricewaterhouseCoopers and Sallmanns has given and not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s) and/or references to its name in the form and context in which it appears.

10. Miscellaneous

- (a) The English text of this circular and form of proxy shall prevail over the Chinese text.
- (b) Except as disclosed in this circular, as at the Latest Practicable Date, there were no agreements or arrangements between the Company and any of the directors of the Company or any other person, or between any director of the Company and any other person, which are conditional upon the outcome of the Transactions or otherwise connected with the Transactions.
- (c) The Secretary of the Company is Ms. Yvonne Yuk Bo Tang, ACIS and ACS.
- (d) There is no person who has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any party acting in concert with it had any interest in any Shares of the Company.
- (e) As at the Latest Practicable Date, none of the experts named in paragraph 8 under “FURTHER INFORMATION ABOUT THE COMPANY” in this Appendix has any shareholding or any beneficial interest in any member of the Group.

11. Market Prices

The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous twelve months before the printing of this circular were:

	Traded market price	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
1999		
September	0.530	0.530
October	0.530	0.460
November	0.480	0.420
December	0.455	0.430
2000		
January	1.400	0.495
February	1.780	1.000
March	1.300	0.960
April	1.000	0.800
May	2.600	0.990
June	1.700	1.290
July	1.430	1.330
August	1.700	1.300

The closing price of the Shares on the Latest Practicable Date was HK\$1.66. The closing price of the Shares on 4th May, 2000, being the last trading day immediately preceding the date the Announcement was first announced on newspapers, was HK\$1.40.

The closing prices, at the end of each of the six calendar months preceding the date of the Announcement were:

	<i>HK\$</i>
1999	
November	0.420
December	0.455
2000	
January	1.100
February	1.080
March	1.040
April	0.950

For the six month period preceding the date of the Announcement to the Latest Practicable Date, the highest and lowest closing market prices of the Shares were HK\$1.100 (on 31st January, 2000) and HK\$0.420 (on 30th November, 1999) respectively.

(C) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company, 7th Floor, Tin Fung Industrial Mansion, 63 Wong Chuk Hang Road, Aberdeen, Hong Kong during normal business hours up to and including 22nd September, 2000:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the Sale and Purchase Agreement;
- (c) the Subscription Agreements;
- (d) the Disposal Agreement;
- (e) the Management Agreement;
- (f) the Escrow Agreement;

- (g) the Equity Transfer Agreement;
- (h) the Placing Agreements;
- (i) the letter from the Independent Board Committee, the text of which is set out on pages 53 to 54 of this circular;
- (j) the letter from Asia Financial, the text of which is set out on pages 55 to 107 of this circular;
- (k) the Accountants' Report on the Founder Data Group, the text of which is set out in Appendix I;
- (l) the letter and valuation certificate from Sallmanns relating to the Founder Data Group, the text of which is set out in Appendix II;
- (m) the comfort letter from PricewaterhouseCoopers regarding the forecast revenue of the Founder Data Group, the text of which is set out in Appendix V;
- (n) the comfort letter from BOCI Asia regarding the forecast revenue of the Founder Data Group, the text of which is set out in Appendix V;
- (o) the comfort letter from PricewaterhouseCoopers regarding the unaudited consolidated results of the Company and its subsidiaries, the text of which is set out in Appendix V;
- (p) the comfort letter from Asia Financial regarding the unaudited consolidated results of the Company and its subsidiaries, the text of which is set out in Appendix V;
- (q) the comfort letter from PricewaterhouseCoopers regarding the cash flow forecast of the MIT Group and the Founder Data Group, the text of which is set out in Appendix V;
- (r) the comfort letter from BOCI Asia regarding the working capital statement of the Founder Data Group, the text of which is set out in Appendix V;
- (s) the comfort letter from Asia Financial regarding the working capital statement of the Enlarged Group, the text of which is set out in Appendix V;
- (t) the material contracts referred to in paragraph 6 under "FURTHER INFORMATION ABOUT THE COMPANY" in this Appendix;
- (u) the written consents referred to in paragraph 9 under "FURTHER INFORMATION ABOUT THE COMPANY" in this Appendix; and
- (v) the annual reports of the Company for the years ended 31st December, 1998 and 31st December, 1999.

NOTICE OF SPECIAL GENERAL MEETING



MANAGEMENT INVESTMENT & TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Management Investment & Technology (Holdings) Limited (the “Company”) will be held at K-2 Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on Monday, 25th September, 2000 for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions numbered 1 to 12, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) a conditional agreement (the “Sale and Purchase Agreement”, a copy of which marked “A” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between Founder Electronics (HK) Limited, F2 Consultant Limited, Mr. Cheung Shuen Lung, Mr. Lei Hon Sang, Mr. Xiao Jian Guo, Mr. Zhang Zhao Dong, Mr. Wei Xin and Mr. Jiang Bi Jin (together, the “Vendors”), the Company and Founder Holdings Limited, pursuant to which, among others, the Company agreed to purchase or procure the purchase from the Vendors of the entire issued share capital of Founder Data Corporation International Limited (“FDC”) for a total consideration of HK\$439,560,000, to be satisfied by the allotment and issue of a total of 439,560,000 new shares (the “Consideration Shares”) of HK\$0.10 each in the Company (“Share”) to each of the Vendors (or as it may direct) in such numbers as set out in Schedule 1 to the Sale and Purchase Agreement, credited as fully paid at a price of HK\$1.00 per Share, be and is hereby approved, ratified and confirmed;
- (b)
 - (i) the acquisition by the Company (or a wholly-owned subsidiary of the Company) of the entire issued share capital of FDC on the terms and subject to the conditions as set out in the Sale and Purchase Agreement;
 - (ii) the allotment and issue of the Consideration Shares to the Vendors (or as each of them may direct) in such numbers as set out in Schedule 1 to the Sale and Purchase Agreement; and
 - (iii) all other transactions contemplated under the Sale and Purchase Agreement be and are hereby approved;

NOTICE OF SPECIAL GENERAL MEETING

- (c) the directors of the Company be and are authorised on behalf of the Company to:
- (i) allot and issue the Consideration Shares to the Vendors (or as each of them may direct) in such numbers as set out in Schedule 1 to the Sale and Purchase Agreement, credited as fully paid at HK\$1.00 each pursuant to the Sale and Purchase Agreement, such Consideration Shares shall rank pari passu in all respects among themselves and with all the existing Shares in issue as at the date of allotment of the Consideration Shares; and
 - (ii) sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of the Sale and Purchase Agreement and the exercise or enforcement of any of the Company's rights under the Sale and Purchase Agreement including, inter alia, upon the Sale and Purchase Agreement becoming unconditional, the authority to complete the Sale and Purchase Agreement and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of the Sale and Purchase Agreement as they may in their discretion consider to be desirable and in the interests of the Company."
2. **“THAT** subject to the passing of Ordinary Resolution No. 1 set out in the notice convening this meeting, the authorised share capital of the Company be and is hereby increased from HK\$50,000,000 to HK\$300,000,000 by the creation of 2,500,000,000 new shares of HK\$0.10 each.”
3. **“THAT**
- (a) a conditional agreement (the “Disposal Agreement”, a copy of which marked “B” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between the Company and Ricwinco Investment Limited (“Ricwinco”), pursuant to which, among others, the Company agreed to sell and Ricwinco agreed to purchase or procure the purchase of the entire issued share capital of Management Investment & Technology International Inc. (“MITI”) and the aggregate sums due from MITI and its subsidiaries and associated companies to the Company and outstanding as at completion of the sale and purchase (the “MITI Indebtedness”), be and is hereby approved, ratified and confirmed;
 - (b) the sale by the Company of the entire issued share capital of MITI and the MITI Indebtedness on the terms and subject to the conditions set out in the Disposal Agreement and all other transactions contemplated under the Disposal Agreement be and are hereby approved; and

NOTICE OF SPECIAL GENERAL MEETING

- (c) the directors of the Company be and are authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of the Disposal Agreement and the exercise or enforcement of any of the Company's rights under the Disposal Agreement including, inter alia, upon the Disposal Agreement becoming unconditional, the authority to complete the Disposal Agreement and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of the Disposal Agreement as they may in their discretion consider to be desirable and in the interests of the Company."

4. "THAT

- (a) a conditional agreement (the "Management Agreement", a copy of which marked "C" has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between the Company and Ricwinco Investment Limited ("Ricwinco"), pursuant to which, among others, (i) Ricwinco shall have the exclusive right to and be responsible for the management and conduct of the business and undertakings of certain subsidiaries and associated companies of the Company, namely Yung Wen Investment & Finance Limited ("Yung Wen") and its subsidiaries and associated companies ("the Yung Wen Group") and Management Investment & Technology Company Limited and its subsidiaries ("the MITC Group") for a period of up to three years (the "Management Arrangement"); (ii) Ricwinco shall provide a guarantee and undertaking to the Company in respect of the profit of the Yung Wen Group and the MITC Group for a period of up to three years (the "Profit Guarantee Arrangement"); and (iii) the Company agreed to sell and Ricwinco agreed to purchase or procure the purchase of the entire issued share capital of Yung Wen and the aggregate sums due from the Yung Wen Group as at completion of the sale and purchase to the Company and outstanding as at such completion (the "Yung Wen Indebtedness"), be and is hereby approved, ratified and confirmed;
- (b) the Management Arrangement, the Profit Guarantee Arrangement, the sale by the Company of the entire issued share capital of Yung Wen and the Yung Wen Indebtedness in each case on the terms and subject to the conditions set out in the Management Agreement and all other transactions contemplated under the Management Agreement be and are hereby approved; and
- (c) the directors of the Company be and are authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of the Management Agreement and the exercise or enforcement of any of the Company's rights under the Management Agreement including, inter alia, upon the Management Agreement becoming unconditional, the authority to complete the Management Agreement and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of the Management Agreement as they may in their discretion consider to be desirable and in the interests of the Company."

NOTICE OF SPECIAL GENERAL MEETING

5. “THAT

- (a) a conditional agreement (the “Founder Subscription Agreement”, a copy of which marked “D” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between Founder Holdings Limited (“Founder”), the Company and BOCI Asia Limited, pursuant to which, among others, Founder agreed to subscribe or procure any of its direct or indirect subsidiaries to subscribe 16,000,000 new shares (the “Founder Subscription Shares”) of HK\$0.10 each in the Company (“Share”) at the subscription price of HK\$1.00 per Share, be and is hereby approved, ratified and confirmed;
- (b)
 - (i) the allotment and issue of the Founder Subscription Shares to Founder (or to a subsidiary or subsidiaries of Founder); and
 - (ii) all other transactions contemplated under the Founder Subscription Agreement,be and are hereby approved;
- (c) the directors of the Company be and are authorised on behalf of the Company to:
 - (i) allot and issue the Founder Subscription Shares to Founder (or to a subsidiary or subsidiaries of Founder) at HK\$1.00 each pursuant to the Founder Subscription Agreement, such Founder Subscription Shares shall rank *pari passu* in all respects among themselves and with all the existing Shares in issue as at the date of allotment of the Founder Subscription Shares; and
 - (ii) sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of the Founder Subscription Agreement and the exercise or enforcement of any of the Company’s rights under the Founder Subscription Agreement including, *inter alia*, upon the Founder Subscription Agreement becoming unconditional, the authority to complete the Founder Subscription Agreement and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of the Founder Subscription Agreement as they may in their discretion consider to be desirable and in the interests of the Company.”

NOTICE OF SPECIAL GENERAL MEETING

6. **“THAT**

(a) a conditional agreement (the “Cheung Subscription Agreement”, a copy of which marked “E” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between Mr. Cheung Shuen Lung (“Mr. Cheung”), the Company and BOCI Asia Limited, pursuant to which, among others, Mr. Cheung agreed to subscribe 15,000,000 new shares (the “Cheung Subscription Shares”) of HK\$0.10 each in the Company (“Share”) at the subscription price of HK\$1.00 per Share, be and is hereby approved, ratified and confirmed;

(b) (i) the allotment and issue of the Cheung Subscription Shares to Mr. Cheung; and

(ii) all other transactions contemplated under the Cheung Subscription Agreement,

be and are hereby approved;

(c) the directors of the Company be and are authorised on behalf of the Company to:

(i) allot and issue the Cheung Subscription Shares to Mr. Cheung at HK\$1.00 each pursuant to the Cheung Subscription Agreement, such Cheung Subscription Shares shall rank *pari passu* in all respects among themselves and with all the existing Shares in issue as at the date of allotment of the Cheung Subscription Shares; and

(ii) sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of the Cheung Subscription Agreement and the exercise or enforcement of any of the Company’s rights under the Cheung Subscription Agreement including, *inter alia*, upon the Cheung Subscription Agreement becoming unconditional, the authority to complete the Cheung Subscription Agreement and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of the Cheung Subscription Agreement as they may in their discretion consider to be desirable and in the interests of the Company.”

7. **“THAT** conditional upon the passing of Ordinary Resolutions No. 1, No. 5 and No. 6 as set out in the notice convening this meeting, the waiver in respect of any obligation of Founder Holdings Limited, Mr. Cheung Shuen Lung and persons acting in concert with any of them (with the term “persons acting in concert” having the meaning ascribed to it under the Hong Kong Code on Takeovers and Mergers) to make a mandatory offer for all the shares of the Company which would (save for the waiver) otherwise arise as a result of the allotment and issue of the Consideration Shares (as defined in Ordinary Resolution No. 1 as set out in the notice convening this meeting), the Founder Subscription Shares (as defined in Ordinary Resolution No. 5 as set out in the notice convening this meeting) and the Cheung Subscription Shares (as defined in Ordinary Resolution No. 6 as set out in the notice convening this meeting) under Rule 26 of the Hong Kong Code on Takeovers and Mergers be and is hereby approved.”

NOTICE OF SPECIAL GENERAL MEETING

8. “THAT

- (a) a conditional agreement (the “Equity Transfer Agreement”, a copy of which marked “F” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between Yahoo! Inc. (“Yahoo!”), the Company and Founder Electronics (HK) Limited (“Founder Electronics”), pursuant to which, among others, Yahoo! agreed to sell or cause to be sold and the Company agreed to purchase or cause to be purchased the entire issued share capital of Datacom Developments Limited (“Datacom”) together with the entire amount of any and all outstanding shareholder loans owed by Datacom as at completion of the sale and purchase (the “Datacom Indebtedness”) for a total consideration of HK\$93,240,000, to be satisfied by the allotment and issue of a total of 93,240,000 new shares (the “Equity Transfer Shares”) of HK\$0.10 each in the Company (“Share”) to Yahoo! or as it may direct, credited as fully paid at a price of HK\$1.00 per Share, be and is hereby approved, ratified and confirmed;
- (b) (i) the purchase by the Company of the entire issued share capital of Datacom and the Datacom Indebtedness on the terms and subject to the conditions set out in the Equity Transfer Agreement;
- (ii) the allotment and issue of the Equity Transfer Shares to Yahoo! or as it may direct; and
- (iii) all other transactions contemplated under the Equity Transfer Agreement,
- be and are hereby approved;
- (c) the directors of the Company be and are authorised on behalf of the Company to :
- (i) allot and issue the Equity Transfer Shares to Yahoo! (or as it may direct), credited as fully paid at HK\$1.00 each pursuant to the Equity Transfer Agreement, such Equity Transfer Shares shall rank pari passu in all respects among themselves and with all the existing Shares in issue as at the date of allotment of the Equity Transfer Shares; and
- (ii) sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of the Equity Transfer Agreement and the exercise or enforcement of any of the Company’s rights under the Equity Transfer Agreement including, inter alia, upon the Equity Transfer Agreement becoming unconditional, the authority to complete the Equity Transfer Agreement and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of the Equity Transfer Agreement as they may in their discretion consider to be desirable and in the interests of the Company.”

NOTICE OF SPECIAL GENERAL MEETING

9. “THAT

(a) each of six conditional placing agreements (the “Placing Agreements”, copies of which marked “G1” to “G6” have been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 17th May, 2000 between the Company, each of the six placees named therein (the “Placees”) and BOCI Asia Limited, pursuant to which, among others, the Placees agreed to subscribe or procure any of their respective direct or indirect subsidiaries to subscribe a total of 75,560,000 new shares (the “Placing Shares”) of HK\$0.10 each in the Company (“Share”) at the subscription price of HK\$1.00 per Share, be and is hereby approved, ratified and confirmed;

(b) (i) the allotment and issue of the Placing Shares to the relevant Placees (or to their respective subsidiary or subsidiaries); and

(ii) all other transactions contemplated under the Placing Agreements,

be and are hereby approved;

(c) the directors of the Company be and are authorised on behalf of the Company to:

(i) allot and issue the Placing Shares to the relevant Placees (or to their respective subsidiary or subsidiaries) at HK\$1.00 each pursuant to the relevant Placing Agreement, such Placing Shares shall rank *pari passu* in all respects among themselves and with all the existing Shares in issue as at the date of allotment of the Placing Shares; and

(ii) sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their decision consider necessary or desirable for the purpose of or in connection with implementation of each of the Placing Agreements and the exercise or enforcement of any of the Company’s rights under each of the Placing Agreements including, *inter alia*, upon each of the Placing Agreements becoming unconditional, the authority to complete the relevant Placing Agreements and/or to procure completion of the same and to make and agree such variations of a non-material nature in the terms of each of the Placing Agreements as they may in their discretion consider to be desirable and in the interests of the Company.”

NOTICE OF SPECIAL GENERAL MEETING

10. “**THAT** conditional upon the Consideration Shares (as defined in Ordinary Resolution No. 1 as set out in the notice convening this meeting) having been duly allotted and issued:
- (a) the general mandate granted to the directors of the Company to exercise the powers of the Company to allot shares of the Company pursuant to the Ordinary Resolution set out in paragraph 4 of the notice convening the annual general meeting held on 28th June, 2000 as approved by the shareholders of the Company at the annual general meeting held on 28th June, 2000 be and is hereby revoked (but without prejudice to any exercise of such mandate prior to the date on which this Resolution becomes effective);
 - (b) subject to paragraph (d) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares in the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
 - (c) the approval in paragraph (b) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares in the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
 - (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (b) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares in the Company upon the exercise of options granted under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the Company; or (iii) an issue of shares in the Company as scrip dividends pursuant to the Bye-laws of the Company from time to time, shall not exceed 20 per cent. of the aggregate of (1) the nominal amount of share capital of the Company in issue as at the date of this Resolution and (2) the nominal amount of the Consideration Shares, the Founder Subscription Shares, the Cheung Subscription Shares, the Equity Transfer Shares, and the Placing Shares (as defined in Ordinary Resolutions Nos. 1, 5, 6, 8 and 9 respectively as set out in the notice convening this meeting) if and to the extent that any or all those shares are allotted and issued in accordance with Ordinary Resolutions Nos. 1, 5, 6, 8 and 9 respectively as set out in the notice convening this meeting, and the said approval shall be limited accordingly; and

NOTICE OF SPECIAL GENERAL MEETING

(e) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (iii) the date upon which the authority set out in this Resolution is revoked or varied by way of ordinary resolution of the shareholders in any general meeting of the Company; and

“Rights Issue” means an offer of shares in the Company open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their holdings of such shares as at that date (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong, applicable to the Company).”

11. **“THAT** conditional upon the Consideration Shares (as defined in Ordinary Resolution No. 1 as set out in the notice convening this meeting) having been duly allotted and issued:

- (a) subject to paragraph (b) of this Resolution the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares in the capital in the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate of (1) the nominal amount of the issued share capital of the Company at the date of this Resolution and (2) the nominal amount of the Consideration Shares, the Founder Subscription Shares, the Cheung Subscription Shares, the Equity Transfer Shares and the Placing Shares (as defined in the Ordinary Resolutions Nos. 1, 5, 6, 8 and 9 respectively as set out in the notice convening this meeting) if and to the extent that any or all of those shares are allotted and issued in accordance with Ordinary Resolutions Nos. 1, 5, 6, 8 and 9 respectively as set out in the notice convening this meeting, and the said approval shall be limited accordingly; and

NOTICE OF SPECIAL GENERAL MEETING

(c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (iii) the date upon which the authority set out in this Resolution is revoked or varied by way of ordinary resolution of the shareholders in any general meeting of the Company.”

12. “**THAT** conditional upon Ordinary Resolutions Nos.10 and 11 as set out in the notice convening this meeting being passed and becoming unconditional, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the shares in the Company pursuant to Ordinary Resolution No.10 as set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 11 as set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate of the nominal amount of (1) the share capital of the Company in issue at the date of this Resolution and (2) the nominal amount of the Consideration Shares, the Founder Subscription Shares, the Cheung Subscription Shares, the Equity Transfer Shares and the Placing Shares (as defined in Ordinary Resolutions Nos. 1, 5, 6, 8 and 9 respectively as set out in the notice convening this meeting) if and to the extent that any or all of those shares are allotted and issued in accordance with Ordinary Resolutions Nos. 1, 5, 6, 8 and 9 respectively as set out in the notice convening this meeting.”

By Order of the Board
Management Investment & Technology
(Holdings) Limited
Yvonne Yuk Bo Tang
Company Secretary

Hong Kong, 9th September, 2000

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder.
- (2) Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
- (3) To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notorially certified copy of such power or authority), must be deposited at the Head Office and Principal Place of Business of the Company at 7th Floor, Tin Fung Industrial Mansion, 63 Wong Chuk Hang Road, Aberdeen, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or upon the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Note 1 to the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers and Note 4 to Rule 25 of the Hong Kong Code on Takeovers and Mergers, Ricwinco Investment Limited and persons acting in concert with it (with the term “persons acting in concert” having the meaning ascribed to it under the Hong Kong Code on Takeovers and Mergers) and its associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) will abstain from voting on Ordinary Resolutions Nos.1, 3, 4 and 7 as set out above, and Ordinary Resolutions Nos.3, 4 and 7 as set out above will be determined by way of poll.