
THIS CIRCULAR 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 Founder Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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方正控股有限公司*
FOUNDER HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

ON-GOING CONNECTED TRANSACTIONS

Financial Adviser

 **ERNST & YOUNG**
Ernst & Young Corporate Finance Limited

Independent Financial Adviser to the Independent Board Committee



Hantec Capital Limited

A letter from the Board is set out on pages 3 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from Hantec Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee is set out on pages 12 to 20 of this circular.

A notice convening the special general meeting of Founder Holdings Limited to be held at 10:30 a.m. on 28th April, 2003 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on page 26 of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

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DEFINITIONS

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

“associate(s)”	has the meaning as ascribed to it in the Listing Rules
“Board”	the board of Directors
“Cap”	RMB24,823,504
“Company”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meanings ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hantec”	Hantec Capital Limited, a deemed licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) who has been appointed as independent financial adviser to the Independent Board Committee with respect to the Lease Agreements and the Waiver
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung, the independent non-executive Directors, appointed to advise the Independent Shareholders in respect of the Lease Agreements and the Waiver
“Independent Shareholders”	Shareholders other than Peking Founder and its associates
“Latest Practicable Date”	31st March, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Lease Agreements”	the new leases to be entered into by certain members of the Group, as lessees, with Peking Founder, as lessor, for certain premises in Beijing, the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Peking Founder”	Peking University Founder Group Corporation
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held to approve the Lease Agreements
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Waiver”	the waiver applied by the Company to the Stock Exchange from strict compliance with the disclosure and shareholders’ approval requirements under the Listing Rules for the three financial years ending 31st December, 2005 in respect of the transactions under the Lease Agreements

For the purpose of illustration only and unless otherwise stated, the translation of Renminbi into Hong Kong dollars is based on the exchange rate of HK\$1.00 = RMB1.06. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

LETTER FROM THE BOARD



方正控股有限公司*
FOUNDER HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Executive Directors:

Mr. Cheung Shuen Lung (*Chairman*)
Professor Wei Xin
Mr. Zhang Zhao Dong
Professor Xiao Jian Guo

Registered Office:

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

Independent non-executive Directors:

Dr. Hu Hung Lick, Henry
Mr. Li Fat Chung

7th April, 2003

To the Shareholders

Dear Sir or Madam,

ON-GOING CONNECTED TRANSACTIONS

BACKGROUND

It was announced in the announcement of the Company dated 19th March, 2003 that the Group proposes to enter into the Lease Agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC. The Group intends to use such premises as its offices, warehouse and staff canteen for an aggregate annual rental and management fees of approximately RMB24.82 million (equivalent to approximately HK\$23.42 million).

Peking Founder is the controlling shareholder of the Company holding approximately 32.67% of the Company's issued share capital as at the Latest Practicable Date and thus a connected person of the Company. Accordingly, the transactions under the Lease Agreements will constitute on-going connected transactions for the Company under the Listing Rules. The Company has applied to the Stock Exchange for the Waiver subject to the conditions as described in the section headed "Connected transactions and Waiver" below.

LETTER FROM THE BOARD

The Independent Board Committee, comprising Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung, the independent non-executive Directors, has been established to advise the Independent Shareholders regarding the fairness and reasonableness of the terms of the Lease Agreements and the Waiver. Hantec has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The purpose of this circular is to provide you with further information on the Lease Agreements and the Waiver and seek your approval of the resolution set out in the notice of SGM on page 26 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Lease Agreements is set out on page 11 of this circular. A copy of the letter from Hantec to the Independent Board Committee containing its advice in relation to the Lease Agreements is set out on pages 12 to 20 of this circular.

THE LEASE AGREEMENTS

Certain members of the Group, as lessees, propose to enter into the Lease Agreements with Peking Founder, as lessor, for certain premises in Beijing, the PRC as the Group's offices, warehouse and staff canteen.

Principal terms of the Lease Agreements

- | | |
|------------------------------------|---|
| 1. Location of premises: | The entire building (except for certain areas on 3rd floor with a total area of approximately 2,000 square metres) of Shangdi Founder Building (上地方正大厦) at No. 9, 5th Street, Shangdi Information Industry Base, Haidian District, Beijing, the PRC |
| Lessor: | Peking Founder |
| Lessee: | Beijing Founder Electronics Co., Ltd., a wholly-owned subsidiary of the Company |
| Area: | Approximately 17,000 square metres (including 13,000 square metres of area above ground and 4,000 square metres of area underground) |
| Unit rental and management fee: | RMB2.7 per square metre per day for area above ground
RMB1.7 per square metre per day for area underground |
| Annual rental and management fees: | RMB15,293,500 (equivalent to approximately HK\$14,427,830) |
| Period: | From 1st May, 2003 to 31st December, 2005 |

LETTER FROM THE BOARD

2. Location of premises: 6th floor of Zhongguancun Founder Building (中關村方正大廈) at No. 298, Chengfu Road, Haidian District, Beijing, the PRC
- Lessor: Peking Founder
- Lessee: Beijing Founder Order Computer System Co., Ltd., a wholly-owned subsidiary of the Company
- Area: Approximately 3,527 square metres
- Unit rental and management fee: RMB4.8 per square metre per day
- Annual rental and management fees: RMB6,179,304 (equivalent to approximately HK\$5,829,532)
- Period: From 1st May, 2003 to 31st December, 2005
3. Location of premises: 6th floor of Zhongguancun Founder Building (中關村方正大廈) at No. 298, Chengfu Road, Haidian District, Beijing, the PRC
- Lessor: Peking Founder
- Lessee: Beijing Founder International Co., Ltd., a 78.8% owned subsidiary of the Company
- Area: Approximately 750 square metres
- Unit rental and management fee: RMB4.8 per square metre per day
- Annual rental and management fees: RMB1,314,000 (equivalent to approximately HK\$1,239,623)
- Period: From 1st May, 2003 to 31st December, 2005
4. Location of premises: 1st and 2nd floors of Founder Building (方正大樓) at No. 204, Chengfu Road, Haidian District, Beijing, the PRC
- Lessor: Peking Founder
- Lessee: Beijing Founder Century Information System Co., Ltd., a wholly-owned subsidiary of the Company
- Area: Approximately 1,800 square metres
- Unit rental and management fee: RMB3.1 per square metre per day
- Annual rental and management fees: RMB2,036,700 (equivalent to approximately HK\$1,921,415)
- Period: From 1st May, 2003 to 31st December, 2005

LETTER FROM THE BOARD

After expiry of the above proposed leases, the lessees will be given the priority to continue to lease such premises from the lessor.

The lessees will be given a rent-free period of two months. Upon execution of the Lease Agreements, the lessees will have to pay deposits to the lessor equal to one month of the rental and management fees for the premises at Shangdi Founder Building and two months of the rental and management fees for the premises at Zhongguancun Founder Building and Founder Building. The aggregate amount of the deposits is approximately RMB2,862,792 (equivalent to approximately HK\$2,700,747). Such deposits will be returned to the lessees after expiry of the leases. However, the lessor will have the right to use the deposits to cover any losses incurred by it as a result of any act of the lessees including any loss of rental income if any of the leases is terminated before the expiry date and the lessee fails to introduce another tenant to the satisfaction of the lessor.

The lessor will have the right to terminate the leases if there is any breach of the terms and conditions of the Lease Agreements on the side of the lessees.

The total floor area to be rented by the Group under the Lease Agreements is approximately 23,077 square metres and the relevant annual rental and management fees will amount to approximately RMB24.82 million (equivalent to approximately HK\$23.42 million) in aggregate.

REASONS FOR AND BENEFITS OF THE LEASE AGREEMENTS

The Group is principally engaged in software development and systems integration relating to the media industry and certain other industries, and the distribution of information products in the PRC. The Group has been leasing certain premises at Shangdi Founder Building (上地方正大廈) and Founder Building (方正大樓) from Peking Founder as the Group's offices and research and development centre since December 1995. At the time of the initial listing of the shares of the Company on the Stock Exchange in 1995, a waiver was granted by the Stock Exchange to the Company from strict compliance with the disclosure and shareholders' approval requirements regarding such existing leasing arrangements with Peking Founder under the Listing Rules. The waiver is valid for the period from the date when dealings of the shares of the Company first commenced on the Stock Exchange on 21st December, 1995 to 31st December, 2005. As agreed by the Group and Peking Founder that the Lease Agreements will supersede the existing lease arrangements between the Group and Peking Founder regarding the premises in Beijing, the PRC, the above existing leases between the Group and Peking Founder will expire on 30th April, 2003.

LETTER FROM THE BOARD

The Group has also been leasing other premises from independent third parties (who are not connected persons of the Company) in various other locations as its offices in Beijing, the PRC and such leases are due to expire in between June and July 2003. The Directors believe that it is necessary for the proposed new leases to commence before the expiry of the existing leases so that the Group will have sufficient time to renovate the new premises before moving in.

Currently, the total floor area occupied by the Group in Beijing, the PRC (including the premises rented from Peking Founder and those rented from independent third parties) is approximately 20,268 square metres with an aggregate annual rental and management fees payable of approximately RMB26 million (equivalent to approximately HK\$24.5 million).

The Group is currently planning to relocate its business operations in Beijing, the PRC, with a view to reducing the number of locations of its offices and centralizing its operations. The Company believes that this will improve the inter-office communication and therefore help improve the operational efficiency and reduce operating costs in the long run. The premises under the Lease Agreements will mainly be used by the Group as the offices of its operations in Beijing, the PRC. As compared with the total floor area under the existing leases (including the premises rented from Peking Founder and those rented from independent third parties), the Group will rent additional areas of approximately 2,800 square metres under the proposed leases. In addition to office and warehouse space requirements, the Group proposes to use the additional floor areas as office space and staff canteen. The Group will use the 1st and 2nd floors of the Annex of Shangdi Founder Building as staff canteen. As disclosed in the announcement of the Company dated 19th March, 2003, the Group initially proposed to use the 3rd and 4th floors of the Annex of Shangdi Founder Building as staff quarters. Having considered the recent business development plan of the Group, the Group has decided to use such area as additional office space for a new business division of the Group instead of as staff quarters.

The terms of the Lease Agreements were reached after arm's length negotiations between the Group and Peking Founder on normal commercial terms. Based on a letter of opinion issued by LCH (Asia-Pacific) Surveyors Limited, an independent Chartered Surveyor appointed by the Company, to the Company dated 19th March, 2003, it is the view of LCH (Asia-Pacific) Surveyors Limited that the unit rental and management fees payable for the various premises under the Lease Agreements are comparable to market rentals of premises in similar locations and are fair and reasonable. The Lease Agreements will be conducted in the ordinary and usual course of business of the Group. The Directors believe that the transactions under the Lease Agreements are in the interests of the Company, and the terms of the Lease Agreements are fair and reasonable so far as the interests of the Shareholders as a whole are concerned.

LETTER FROM THE BOARD

CONNECTED TRANSACTIONS AND WAIVER

Peking Founder is the controlling shareholder of the Company holding approximately 32.67% of the Company's issued share capital as at the Latest Practicable Date and thus a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Lease Agreements will constitute connected transactions for the Company under the Listing Rules.

As the aggregate annual rental and management fees payable under the Lease Agreements is expected to exceed the higher of HK\$10 million and 3% of the latest published consolidated net tangible asset value of the Company, the transactions under the Lease Agreements are subject to the disclosure (by way of press announcements) and shareholders' approval requirements under Chapter 14 of the Listing Rules. Given the on-going and recurring nature of the transactions under the Lease Agreements, the Directors consider it impracticable and unduly burdensome for the Company to comply strictly with such disclosure and shareholders' approval requirements on each occasion the transactions arise. Accordingly, the Company has applied to the Stock Exchange for the Waiver subject to the following conditions:

1. the Lease Agreements shall be:
 - (a) entered into by the Group in the ordinary and usual course of its business;
 - (b) entered into either (i) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities); or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the interests of the Shareholders as a whole are concerned; and
 - (c) carried out in accordance with the terms of the Lease Agreements;
2. the annual aggregate amount of the transactions under the Lease Agreements shall not exceed the Cap;
3. the independent non-executive Directors shall review annually the transactions under the Lease Agreements and confirm in the Company's annual report for each financial year to which the Waiver applies that the transactions under the Lease Agreements have been conducted in the manner as stated in paragraphs 1 and 2 above;

LETTER FROM THE BOARD

4. the auditors of the Company shall review annually the transactions under the Lease Agreements for each financial year to which the Waiver applies and confirm in a letter (the “Letter”) to the Board (a copy of which shall be provided to the Stock Exchange) stating whether:
- (a) the transactions under the Lease Agreements have been approved by the Board;
 - (b) the transactions under the Lease Agreements have been conducted in accordance with the terms of the Lease Agreements; and
 - (c) the Cap has been exceeded or not;

where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the Board with the Letter, the Company shall inform the Stock Exchange immediately; and

5. details of the transactions under the Lease Agreements shall be disclosed in the Company’s annual report for each of the three financial years ending 31st December, 2003, 2004 and 2005 in accordance with the disclosure requirements under Rule 14.25(1) (A) to (D) of the Listing Rules together with a statement of opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs 3 and 4 above.

Peking Founder will undertake to the Company that it will allow the auditors of the Company sufficient access to its records with a view to allowing the auditors of the Company to report on the transactions under the Lease Agreements in accordance with paragraph 4 above.

Should there be any change to the terms and conditions of the Lease Agreements, the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules unless the Company applies for and obtains a separate waiver from the Stock Exchange.

SPECIAL GENERAL MEETING

The Company has convened the SGM at 10:30 a.m. on 28th April, 2003 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at which an ordinary resolution will be proposed for the purpose of considering and, if thought fit, approving the Lease Agreements (and all matters contemplated thereunder). Peking Founder and its associates will abstain from voting at the SGM in respect of the resolution to consider the Lease Agreements. The notice of the SGM is set out on page 26 of this circular.

LETTER FROM THE BOARD

A form of proxy for use in connection with the SGM is enclosed herewith. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time appointed for the holding of the SGM (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

RECOMMENDATION

Your attention is drawn to (I) the letter from the Independent Board Committee set out on page 11 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the Lease Agreements and (II) the letter from Hantec set out on pages 12 to 20 of this circular which contains its recommendation to the Independent Board Committee in respect of the resolution for approving the Lease Agreements.

The Independent Board Committee, having taken into account the advice of Hantec, considers that the terms of the Lease Agreements are fair and reasonable, and the Lease Agreements and the Waiver are in the best interest of the Company so far as the interests of the Independent Shareholders as a whole are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the Lease Agreements.

Yours faithfully,
By order of the Board
Cheung Shuen Lung
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



方正控股有限公司*
FOUNDER HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

7th April, 2003

To the Independent Shareholders

Dear Sir or Madam,

ON-GOING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Lease Agreements and the Waiver, details of which are set out in the letter from the Board in the circular dated 7th April, 2003 (the “Circular”) to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless otherwise requires.

Having taken into account the advice of Hantec, we consider that the terms of the Lease Agreements are fair and reasonable, and the Lease Agreements and the Waiver are in the best interest of the Company so far as the interests of the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the Lease Agreements.

Yours faithfully,

Dr. Hu Hung Lick, Henry Mr. Li Fat Chung
Independent Board Committee

LETTER FROM HANTEC

The following is the text of a letter from Hantec in connection with the terms of the Lease Agreements which has been prepared for the purpose of inclusion in this circular:



45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

7th April, 2003

*To the Independent Board Committee of
Founder Holdings Limited*

Dear Sirs,

ON-GOING CONNECTED TRANSACTIONS

We refer to our appointment to advise the Independent Board Committee in respect of the Lease Agreements to be entered into by the Group and Peking Founder. Pursuant to these Lease Agreements, the Group will lease from Peking Founder certain premises in Beijing, the PRC as its offices, warehouse and staff canteen for an aggregate annual rental and management fees of approximately RMB24,820,000 (equivalent to approximately HK\$23,420,000). Details of the Lease Agreements are set out in the letter from the Board contained in the circular of the Company dated 7th April, 2003 (the "Circular"), of which this letter forms part. Capitalised terms used herein without definition shall have the same meaning as defined in the Circular unless the context otherwise requires.

The Lease Agreements constitute on-going connected transactions of the Company under the Listing Rules since Peking Founder is the controlling shareholder of the Company holding approximately 32.67% of the Company's issued share capital. The Lease Agreements are therefore subject to, among other things, the approval of the Independent Shareholders at the SGM, in which Peking Founder and its associates will abstain from voting in the resolution concerning the Lease Agreements. The Independent Board Committee, comprising Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung, has been established to advise the Independent Shareholders regarding the fairness and reasonableness of the terms of the Lease Agreements.

LETTER FROM HANTEC

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, amongst others, (i) the Lease Agreements, (ii) the existing two lease agreements entered into between the Group and Peking Founder on 7th December, 1995 for the premises at Shangdi Founder Building and Founder Building, which are due to expire on 31st December, 2005 (the “Existing Peking Founder Agreements”), (iii) the existing lease agreements each entered into between the Group and an independent third party in July 2000 and November 2001 for the offices of the Group in Beijing, the PRC (collectively referred to as the “Existing Independent Agreements”) which are due to expire in June or July 2003, and (iv) the opinion letter dated 19th March, 2003 issued by LCH (Asia-Pacific) Surveyors Limited, an independent Chartered Surveyor appointed by the Company.

We have relied on the statements, information, opinions and representations and warranties contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations, warranties and opinions contained in the Circular and the Lease Agreements provided by the Directors and management of the Company are true and accurate at the time they were made and will continue to be accurate at the date of dispatch of the Circular. The Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or omissions which would make any statement in the Circular, including this letter, untrue, inaccurate or misleading. We have no reason to suspect any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

We believe that we have been provided with sufficient information which forms reasonable basis for our opinion. We have not, however, carried out any independent investigation of the information provided by the Directors and management of the Company, nor have we conducted any independent investigation into the business and affairs of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving our opinion with regard to the Lease Agreements, we have taken into consideration the following principal factors and reasons:

I. Reasons for the Lease Agreements

Information on the Group

The Group is principally engaged in software development and systems integration relating to the media industry and certain other industries, and the distribution of information products in the PRC. The Group since December 1995 has been leasing certain premises from Peking Founder in Beijing, the PRC as its offices and research and development centre.

LETTER FROM HANTEC

Information on the Group's existing lease agreements for its operations in Beijing, the PRC

We understand from the Directors that the Group currently occupies four premises in Beijing, the PRC, two of which are leased from Peking Founder under the Existing Peking Founder Agreements and the other two from independent third parties under the Existing Independent Agreements. The aggregate floor area of these premises is approximately 20,268 square metres, with an aggregate annual rental and management fees of approximately RMB26,000,000 (equivalent to approximately HK\$24,500,000).

The two premises under the Existing Peking Founder Agreements are located at Shangdi Founder Building and Founder Building, which totalled to approximately 13,900 square metres, and which are used as the Group's offices and research and development centre. Since Peking Founder is a connected party of the Company, the Existing Peking Founder Agreements are connected transactions for the Company under the Listing Rules. The Stock Exchange had granted a waiver to the Company from strict compliance with the disclosure and shareholders' approval requirements in respect of the Existing Peking Founder Agreements. Upon the execution of the Lease Agreements, the Existing Peking Founder Agreements will be expired on 30th April, 2003 and superseded by the Lease Agreements.

The other two premises under the Existing Independent Agreements are also located in Haidian District of Beijing, the PRC, where Shangdi Founder Building and Founder Building are located. The total floor area for these premises is approximately 6,322 square metres and is used as the Group's offices. One of the Existing Independent Agreements will be due on 24th July, 2003, while the other will be due on 30th June, 2003.

Reasons for entering into the Lease Agreements

In order to centralize its operations in Beijing, the PRC and to improve its inter-office communication and operational efficiency, the Group intends to relocate its business operations in Beijing, the PRC. The premises under the Lease Agreements are located at three buildings, namely Shangdi Founder Building, Founder Building and Zhongguancun Founder Building. The total floor area of the premises to be leased by the Group under the Lease Agreements is approximately 23,077 square metres, representing an additional floor area of approximately 2,800 square metres to the premises under the Existing Peking Founder Agreements and the Existing Independent Agreements. As confirmed by the Directors, approximately 1,755 square metres under the Lease Agreements will be used as a staff canteen with the remaining floor area of approximately 21,322 square metres as offices, warehouse and research and development centre for the Group's existing operation and a new business division in Beijing, the PRC. The

LETTER FROM HANTEC

aggregate annual rental and management fees to be paid by the Group to Peking Founder under the Lease Agreements will be approximately RMB24,820,000 (equivalent to approximately HK\$23,420,000), representing a decrease in rental and management fees of approximately RMB1,180,000 (equivalent to approximately HK\$1,080,000) per annum. The Directors believe that the transactions under the Lease Agreements are in the interests of the Company, and that the terms thereof are fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

Based on the map on Beijing streets and other information provided by the Directors, we understand that the distance and traffic condition among the three premises under the Lease Agreements are both improved from those among the premises currently occupied by the Group. In addition, we have made specific inquiries in order for us to understand the reasons for the Company to use part of the additional floor areas as staff canteen. We have been informed by the management of the Company that the particular floor areas for the staff canteen located in Shangdi Founder Building has been in place for the past eight years and the Group is expected not to incur any additional cost of operating the staff canteen. In light of the above and the reduction in annual rental and management fees of approximately RMB1,180,000 (equivalent to approximately HK\$1,080,000), we are of the view that the Lease Agreements will reduce the number of its office locations in Beijing, the PRC and improve its inter-office communication and operational efficiency and reduce the operating costs in the long run.

II. Major terms of the Lease Agreements

The premises under the Lease Agreements include (i) the entire building of Shangdi Founder Building except for certain areas on 3rd floor with a total area of approximately 2,000 square metres, (ii) the 6th floor of Zhongguancun Founder Building, (iii) the 1st floor and 2nd floor of Founder Building. The Directors believe that the terms of the Lease Agreements are fair and reasonable so far as the interests of the Shareholders as a whole are concerned. Set out below are more details of the major terms of the Lease Agreements.

Rental and management fees

The aggregate annual rental and management fees to be paid by the Group to Peking Founder under the Lease Agreements is approximately RMB24,820,000. Based on the aggregate floor area to be leased under the Lease Agreements of approximately 23,077 square metres, the annual average unit rental and management fees is approximately RMB1,076 per square metre. Compared to the aggregate floor areas of approximately 20,268 square metres and the aggregate annual rental and management fees paid by the Group of approximately RMB26,000,000 under the Existing Peking Founder Agreements and the Existing Independent Agreements, the annual

LETTER FROM HANTEC

average unit rental and management fees to be paid by the Group under the Lease Agreements represents a reduction of approximately 16% to the average unit rental and management fees currently payable by the Group under the Existing Peking Founder Agreements and the Existing Independent Agreements, and the Group by entering into the Lease Agreements will be able to reduce its rental and management fees of approximately RMB1,180,000 per annum.

In addition, according to the opinion provided by LCH (Asia-Pacific) Surveyors Limited, the rental (including the relevant management fees) under the Lease Agreements is comparable to the market level and is fair and reasonable as of the date of their opinion letter. We understand from LCH (Asia-Pacific) Surveyors Limited that in formulating their opinion they have conducted market research on various similar premises in Haidian District where the premises under the Lease Agreements are located. Based on the opinion letter issued by LCH (Asia-Pacific) Surveyors Limited and compared with the rental and management fees paid by the Group for the premises currently occupied by it in Beijing, the PRC, we are of the opinion that the rental and management fees payable under the Lease Agreements are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

Payment method

The aggregate annual rental payment under the Lease Agreements is payable by the Group semi-annually in arrears on 31st July and 31st December. We noted that the Group under the Existing Peking Founder Agreements has to pay rental and management fees semi-annually on 30th June and 31st December, while under the Existing Independent Agreements it has to pay rental monthly in advance (payable on the fifth day of each month) or quarterly in advance (payable on or prior to 15 business days before the end of each quarter). Since the rental and management fees will be paid by the Group in cash, we consider that payment in arrears is more favourable to the Group and the Lease Agreements are therefore more favourable than those entered into with independent third parties in terms of the payment method.

Deposit payment

The Group under the Lease Agreements has to pay certain deposits to Peking Founder upon execution of the Lease Agreements, namely, deposits equivalent to one month of rental and management fees for the premises at Shangdi Founder Building and two months of rental and management fees for the premises at Zhongguancun Founder Building and Founder Building. The aggregate deposit is approximately RMB2,863,000 (equivalent to approximately HK\$2,701,000). Such deposits will be returned in full to the Group within 15 days after expiry of the Lease Agreements except (a) when there are damages to the premises, or (b) where there is accrued but unpaid rent. However, in the event that the Group terminates the Lease Agreements

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for no fault on the part of Peking Founder and that the Group is not able to introduce another tenant to the satisfaction of Peking Founder, Peking Founder will have the right to use the relevant portion of the deposits to cover any losses (including losses in rental income under the Lease Agreements) incurred by it as a result of such early termination and the failure to introduce another tenant to its satisfaction.

We noted that, while the Group has no obligation to pay deposits to Peking Founder under the Existing Peking Founder Agreements, it has to pay deposits to the relevant lessors under the Existing Independent Agreements upon execution equivalent to three months of rental and management fees. The aggregate deposit is approximately RMB2,497,000 (equivalent to approximately HK\$2,356,000). Such deposits will be returned in full to the Group within 3 or 15 days after expiry of the Existing Independent Agreements, respectively, except (a) when there are damages to the premises, or (b) where there is accrued but unpaid rent. We have compared several lease agreements entered into between independent third parties in the PRC to complete our analysis. We found that early termination of lease agreement is generally contractually prohibited unless either the lessee or the lessor breaches their respective obligations under such lease agreement. In the event that a lease agreement provides early termination, a right would be vested in the lessor to forfeit the deposits and to request compensation from the lessee for any losses or damages incurred by the lessor due to the early termination. Since the Lease Agreements allow the Group to terminate the agreements before they are due provided that the Group is able to find another tenant to the satisfaction of Peking Founder to continue the relevant agreements, we are of the view that the Lease Agreements provide a flexible exit for the Group without having to forgo the deposits paid by the Group to Peking Founder. Based on the above, we are of the opinion that the Lease Agreements are no less favourable than those entered into with independent third parties in terms of the deposit payment.

Rent-free period

One of the Existing Independent Agreements provides the Group with a rent-free period of one month, while the other provides a renovation period of two months in advance of the beginning of the term of the lease rather than rent-free period during the term of the lease. The Lease Agreements provide the Group with a rent-free period of two months in 2003. Based on the above, we are of the opinion that the Lease Agreements are no less favourable than those entered into with independent third parties in terms of the rent-free period.

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Term

The Lease Agreements are from 1st May, 2003 to 31st December, 2005, and the Group has the right to renew the agreements with two-month prior notice to Peking Founder. The term is comparable to that of the Existing Independent Agreements (one is three years and the other is two years and eight months). In view of the relatively large floor areas rented under the Lease Agreements, we believe the medium term of the Lease Agreements provides relatively stable premises to the Group and meanwhile maintains flexibility for the Group to renew the agreements.

III. Conditions to the Waiver

The Cap amount is RMB24,823,504 (equivalent to approximately HK\$23,418,400), being the aggregate annual rental and management fees payable by the Group to Peking Founder under the Lease Agreements. The Waiver is subject to certain conditions, including:

- (a) the Lease Agreements shall be
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) entered into either (x) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities); or (y) (where there is no available comparison) on terms that are fair and reasonable so far as the interests of the Shareholders as a whole are concerned; and
 - (iii) carried out in accordance with the terms of the Lease Agreements;
- (b) the annual aggregate amount of the transactions under the Lease Agreements shall not exceed the Cap amount;
- (c) the independent non-executive Directors shall review annually the transactions under the Lease Agreements and confirm in the Company's annual report for each financial year to which the Waiver applies that the transactions under the Lease Agreements have been conducted in the manner as stated in paragraphs (a) and (b) above;

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- (d) the auditors of the Company shall review annually the transactions under the Lease Agreements and confirm in a letter to the Board (a copy of which shall be provided to the Stock Exchange) stating that:
- (i) the transactions under the Lease Agreements have been approved by the Board;
 - (ii) the transactions under the Lease Agreements have been conducted in accordance with the terms of the Lease Agreements; and
 - (iii) the Cap amount has been exceeded or not;
- (e) details of the transactions under the Lease Agreements shall be disclosed in the Company's annual report for each of the three financial years ending 31st December, 2003, 2004 and 2005 in accordance with the disclosure requirements under Rule 14.25(1)(A) to (D) of the Listing Rules together with a statement of opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs (c) and (d) above.

Peking Founder will undertake to the Company that it will allow the auditors of the Company sufficient access to its records with a view to allowing the auditors of the Company to report on the transactions under the Lease Agreements in accordance with paragraph (d) above.

Should there be any change to the terms and conditions of the Lease Agreements, the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules unless the Company applies for and obtains a separate waiver from the Stock Exchange. On this basis, we are of the view that the interests of the Independent Shareholders will be properly safeguarded.

RECOMMENDATION

Having considered the above factors and reasons, in particular that:

- the Group intends to centralise its operation in Beijing, the PRC in order to improve its inter-office communication and efficiency;
- the annual average unit rental and management fees per square metre under the Lease Agreements represents a reduction of approximately 16% to the annual average unit rental and management fees currently payable by the Group for its premises in Beijing, the PRC. The Group by entering into the Lease Agreements will be able to reduce its rental expenses for its operations in Beijing, the PRC of approximately RMB1,180,000 per annum;

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- the rental under the Lease Agreements is comparable to the market level and is fair and reasonable according to the opinion letter issued by an independent valuer;
- the rental under the Lease Agreements will be payable semi-annually in arrears, which is more favourable than rental payable in advance under the Existing Independent Agreements;
- terms of deposits and rent-free period under the Lease Agreements are more favourable than those under the Existing Independent Agreements; and
- the Waiver will be subject to a number of conditions, such as independent review and inspection by the independent non-executive Directors,

we are of the view that the terms and conditions of the Lease Agreements and the Waiver are fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Lease Agreements.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Kinson Li
Director

GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company or any associated corporation (within the meaning of the SDI Ordinance) notifiable to the Company and the Stock Exchange under section 28 of the SDI Ordinance and including interests in which a Director has taken under section 31 of or Part 1 of the Schedule to the SDI Ordinance or required to be entered into the register under section 29 of the SDI Ordinance or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules were as follows:

A. Directors' interests in shares of the Company and any of its associated corporations

- (i) Directors' interests in ordinary shares of EC-Founder (Holdings) Company Limited ("EC-Founder"), an associated corporation of the Company under the SDI Ordinance

Name of Director	Nature of interest	Number of ordinary shares held
Cheung Shuen Lung	Personal	36,890,100
Wei Xin	Personal	3,956,000
Zhang Zhao Dong	Personal	3,956,000
Xiao Jian Guo	Personal	8,703,300

GENERAL INFORMATION

- (ii) In addition to the above, as at the Latest Practicable Date, Mr. Cheung Shuen Lung had non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company, solely for the purpose of complying with the minimum company membership requirements.

B. Directors' rights to acquire shares of the Company and any of its associated corporations

Directors' interests in share options of EC-Founder

Name of Director	Number of share options held	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
	<hr style="width: 100px; margin: 0 auto;"/> 4,000,000 <hr style="width: 100px; margin: 0 auto;"/>			

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has for the purposes of section 28 of the SDI Ordinance, nor are they taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the equity or debt securities of the Company or any associated corporations within the meaning of the SDI Ordinance or any interests which are required to be entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules.

GENERAL INFORMATION

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following corporation (not being a Director or the chief executive of the Company) was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of Shareholder	Number of shares held	Percentage of the Company's issued share capital
Peking Founder	367,179,610	32.67

As at the Latest Practicable Date, the following corporations (not being a Director or the chief executive of the Company or his/her respective associates or a member of the Group) were, directly or indirectly, interested in 10% or more of the issued share capital of the following subsidiaries of the Company:

Name of subsidiary	Substantial shareholder	Percentage of shareholding
Founder Searchage Technology Limited	Webforce Limited	30%
Founder Airsoft System Technology Limited	Chinalink First Limited	30%
Founder Information Ltd.	古呈科技股份有限公司	26.32%
Hope Information Technology Co., Ltd.	中央日報社股份有限公司	48.80%
Founder International Inc.	Softbank Internet Technology Fund 2	13.57%
Power Print Inc.	Yahoo Japan Corporation Konica Business Machines Japan Co., Ltd.	15% 12.5%

GENERAL INFORMATION

Save as disclosed above, there was no person (not being a Director or the chief executive of the Company or his/her associates or a member of the Group) known to the Directors who at the Latest Practicable Date was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2001 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

5. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. CONSENT

Hantec is a deemed licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Hantec has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 7th April, 2003 and references to its name in the form and context in which they appear.

7. GENERAL

- (a) None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31st December, 2001 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and which was significant in relation to the business of the Group.
- (b) As at the Latest Practicable Date, Hantec has no shareholding in any members of the Group and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

GENERAL INFORMATION

- (c) None of the Directors or Hantec is interested, directly or indirectly, in any assets which had since 31st December, 2001 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any members of the Group or are proposed to be acquired or disposed of by or leased to any members of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business in Hong Kong of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong from 7th April, 2003 to 22nd April, 2003 (both days inclusive):

- (a) the letter from Hantec, the text of which is set out on pages 12 to 20 of this circular;
- (b) the written consent of Hantec as referred to in paragraph 6 above;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular; and
- (d) agreed draft of the Lease Agreements.

NOTICE OF SPECIAL GENERAL MEETING



方正控股有限公司*
FOUNDER HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of the Company will be held at 10:30 a.m on 28th April, 2003 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** subject to the granting of a waiver from The Stock Exchange of Hong Kong Limited from strict compliance with the requirements of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Lease Agreements (as defined in the circular of the Company dated 7th April, 2003, a copy of which was marked “A” and has been produced to the meeting and signed by the Chairman of the meeting for the purposes of identification) proposed to be entered into between certain subsidiaries of the Company and Peking University Founder Group Corporation be and are hereby approved; **AND THAT** any director of the Company be and is hereby authorized to do all such acts and take all necessary actions in connection with the execution of the Lease Agreements.”

By order of the Board
Tang Yuk Bo, Yvonne
Company Secretary

Hong Kong, 7th April, 2003

Notes:

- (1) A member who is holder of two or more shares, and who is entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his form of proxy will be deemed to have been revoked.
- (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 of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (3) In order 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 notarially certified copy of that power or authority must be deposited at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
- (4) In accordance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), Peking University Founder Group Corporation and its associates (as defined in the Listing Rules) will abstain from voting on the above resolution.