
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult a 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 and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agents through whom the sale was effected for transmission to the purchaser or transferee.

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**SUBSCRIPTION OF NEW SHARES IN AN UNLISTED SUBSIDIARY
CONNECTED TRANSACTION**

Financial adviser to Founder Holdings Limited

 **ERNST & YOUNG**

Ernst & Young Corporate Finance Limited

**Independent financial adviser to the Independent Board Committee
of Founder Holdings Limited**

 **Hantec Capital Limited**

A letter from the board of directors of Founder Holdings Limited is set out on pages 3 to 9 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 10 of this circular. A letter from Hantec Capital Limited containing its advice to the Independent Board Committee is set out on pages 11 to 17 of this circular.

A notice convening the special general meeting to be held at 10:00 a.m. on 30 August 2004 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 23 to 24 of this circular. 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 Founder Holdings Limited 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 special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general 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
“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
“Director(s)”	director(s) of the Company
“Founder Inc.”	Founder International Inc., a company incorporated in Japan, an 88.19% owned subsidiary of the Company
“Founder Inc. Group”	Founder Inc. and its subsidiaries
“Founder Inc. Share(s)”	ordinary share(s) in the share capital of Founder Inc.
“Group”	the Company and its subsidiaries
“Hantec”	Hantec Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purposes of the SFO, who has been appointed as the independent financial adviser to the Independent Board Committee with respect to the Subscription
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung, the independent non-executive Directors, which has been established for the purposes of advising the Independent Shareholders in relation to the Subscription
“Independent Shareholders”	Shareholders other than Mr. Guan and his associates
“Latest Practicable Date”	11 August 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Mr. Guan”	Mr. Guan Xiang Hong, the President and an executive director of Founder Inc. and a Vice President of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (as amended from time to time))
“SGM”	the special general meeting of the Company to be held to consider and, if thought fit, approve the Subscription
“Shareholders”	shareholders of the Company
“Shareholders’ Approval”	approval from the Independent Shareholders in respect of the Subscription
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Media Champion Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately beneficially wholly-owned by Mr. Guan
“Subscription”	the subscription of the Subscription Shares pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the share application agreement dated 22 July 2004 made between Founder Inc. and the Subscriber in respect of the Subscription
“Subscription Shares”	a total of 870 new Founder Inc. Shares to be subscribed by the Subscriber
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JPY”	Japanese Yen, the lawful currency of Japan

LETTER FROM THE BOARD



(Incorporated in Bermuda with limited liability)

(Stock Code: 0418)

Executive Directors:

Mr. Cheung Shuen Lung (*Chairman and President*)

Professor Xiao Jian Guo (*Deputy Chairman*)

Professor Wei Xin

Mr. Zhang Zhao Dong

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Independent non-executive Directors:

Dr. Hu Hung Lick, Henry

Mr. Li Fat Chung

Principal place of business in

Hong Kong:

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

13 August 2004

To the Shareholders

Dear Sir or Madam,

SUBSCRIPTION OF NEW SHARES IN AN UNLISTED SUBSIDIARY CONNECTED TRANSACTION

INTRODUCTION

The Company announced on 23 July 2004 that, on 22 July 2004, Founder Inc., an 88.19% owned subsidiary of the Company, entered into the Subscription Agreement with the Subscriber to issue a total of 870 Founder Inc. Shares in two tranches at a price of JPY300,000 (equivalent to approximately HK\$21,000) per Subscription Share.

* *For identification purpose only*

LETTER FROM THE BOARD

The Subscriber is wholly-owned by Mr. Guan, the President and an executive director of Founder Inc. and a Vice President of the Company. As the Subscriber is wholly-owned by Mr. Guan who is a connected person of the Company under the Listing Rules, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the Shareholders' Approval of the Company at the SGM.

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 Subscription Agreement. 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 details of the Subscription, the advice from Hantec to the Independent Board Committee and the recommendation of the Independent Board Committee to the Independent Shareholders, and to seek your approval of the resolution set out in the notice convening the SGM.

THE SUBSCRIPTION AGREEMENT

The Subscription Shares

On 22 July 2004, Founder Inc. entered into the Subscription Agreement with the Subscriber in respect of the Subscription. Pursuant to the Subscription Agreement, Founder Inc. will issue and the Subscriber will subscribe a total of 870 Founder Inc. Shares in two tranches at JPY300,000 (equivalent to approximately HK\$21,000) per Subscription Share, with a total consideration of JPY261,000,000 (equivalent to approximately HK\$18 million).

Completion of the Subscription shall take place in two stages:

- 333 new Founder Inc. Shares will be subscribed at an aggregate consideration of JPY99,900,000 (equivalent to approximately HK\$7 million) within seven days after the Shareholders' Approval (or such later date as the parties may agree);
- 537 new Founder Inc. Shares will be subscribed at an aggregate consideration of JPY161,100,000 (equivalent to approximately HK\$11 million) on the date falling on the sixth month after completion of the first stage as stated above (or such later date as the parties may agree).

The Subscription is conditional upon the Shareholders' Approval and the Subscription Agreement does not confer to any party the right to waive the condition.

LETTER FROM THE BOARD

The Subscription Shares represent approximately 38.62% of the issued share capital of Founder Inc. as at the Latest Practicable Date and approximately 27.86% of the enlarged issued share capital of Founder Inc. after the Subscription. As at the Latest Practicable Date, the Company held indirectly 1,987 Founder Inc. Shares, representing approximately 88.19% of the issued share capital of Founder Inc.. Save for their respective nominees on the board of directors of Founder Inc., those shareholders of Founder Inc. holding the remaining 11.81% of Founder Inc. are independent third parties not connected with the Company or the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates; and none of such shareholders holds 10% or more of the issued share capital of Founder Inc.. Upon completion of the Subscription, the shareholding interest of the Company in Founder Inc. will decrease to approximately 63.62%. Founder Inc. will continue to be a non-wholly owned subsidiary of the Company after completion of the Subscription.

The Subscription Shares, when fully paid, will rank pari passu in all respects with the existing Founder Inc. Shares in issue including the right to any dividends or distributions, made or declared after the date of completion of the Subscription.

The Subscriber

The Subscriber is wholly-owned by Mr. Guan, the President and an executive director of Founder Inc. and a Vice President of the Company. Save for the aforementioned relationship, Mr. Guan is not connected with the Company or the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. Save for his holding of 31 share options of Founder Inc. and 600,000 share options of the Company, Mr. Guan and his associates did not hold any Founder Inc. Shares or any shares of the Company as at the Latest Practicable Date. The Directors understand that the Subscriber is an investment holding company and that, save for the entering into of the Subscription Agreement, the Subscriber has not engaged in any business activity.

Mr. Guan is in charge of the day-to-day operation of the Founder Inc. Group and is responsible for the Group's operation in Japan and South Korea. It is expected that there will not be any material change to Mr. Guan's management role in the Founder Inc. Group upon completion of the Subscription. The Directors understand that Mr. Guan intends to hold the Subscription Shares as a long-term investment.

LETTER FROM THE BOARD

The subscription price per Subscription Share

In November 2003, Founder Inc. issued and allotted to a wholly-owned subsidiary of the Company 1,000 Founder Inc. Shares credited as fully paid up by cash of JPY300,000,000 (equivalent to approximately HK\$21,000,000) at JPY300,000 (equivalent to approximately HK\$21,000) per Founder Inc. Share which was arrived at after arm's length negotiation between the shareholders of Founder Inc. with reference to the unaudited net asset value of Founder Inc. as at 30 June 2003. The subscription price per Subscription Share of JPY300,000 (equivalent to approximately HK\$21,000) was arrived at after arm's length negotiation between Founder Inc. and the Subscriber with reference to the issue price per Founder Inc. Share allotted to the Company in November 2003. The subscription price per Subscription Share represents a premium of approximately 111.47% over the audited consolidated net asset value per Founder Inc. Share as at 31 December 2003 of approximately JPY141,865 (equivalent to approximately HK\$9,930).

The Board considers that the terms of the Subscription, which were arrived at after arm's length negotiation between Founder Inc. and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The reasons for and benefits of the Subscription are set out in the section headed "Reasons for and benefits of the Subscription and use of proceeds" below.

INFORMATION ON FOUNDER INC.

Founder Inc. was set up by the Group in 1996 originally as an indirect wholly-owned subsidiary of the Company, with a view to developing the Group's businesses in Japan and South Korea. In 2000, certain independent third parties became minority shareholders of Founder Inc. and, as set out in the section headed "The Subscription Agreement" above, they together held approximately 11.81% of the issued share capital of Founder Inc. as at the Latest Practicable Date. Since its establishment, the Founder Inc. Group has been principally engaged in software development and systems integration in electronic publishing systems and solutions.

For the year ended 31 December 2002, Founder Inc. recorded audited consolidated loss before and after taxation and minority interests of approximately HK\$29.9 million and approximately HK\$20.5 million respectively. For the year ended 31 December 2003, Founder Inc. recorded audited consolidated loss before and after taxation and minority interests of approximately HK\$12.9 million and approximately HK\$12.5 million respectively and an audited consolidated net asset value of approximately HK\$23.1 million.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

Founder Inc. has exhausted much of its resources in developing its software development and systems integration business as well as the businesses of printing and publishing of magazine in the past few years. The Directors consider that the Subscription will improve the working capital position and strengthen the financial position of the Founder Inc. Group. The Directors also expect that the Subscription will provide further incentive to Mr. Guan and enable the Group to secure his continued devotion to the business development of the Founder Inc. Group. It is preliminarily estimated that a gain of approximately HK\$7 million before deducting expenses will be recorded by the Group arising from the deemed disposal of the interest in Founder Inc. by the Group as a result of the Subscription.

The proceeds of the Subscription are estimated to be JPY261 million (equivalent to approximately HK\$18 million). It is expected that approximately HK\$10 million of the proceeds may be used by the Founder Inc. Group to finance the development of a potential business project in its ordinary and usual course of business and the balance of the proceeds will be used as general working capital of the Founder Inc. Group. The Founder Inc. Group is currently in preliminary discussion with a potential business partner in Japan regarding collaboration arrangement for a business project relating to the use of electronic publishing systems and solutions. Subject to the result of the negotiation, the business project may or may not proceed eventually.

If the Founder Inc. Group is eventually unable to secure the aforementioned business project, up to approximately HK\$7 million of the proceeds of the Subscription may be used to repay a working capital loan due by Founder Inc. to True Luck Group Limited, an indirect wholly-owned subsidiary of the Company, and the balance of the proceeds will be used as general working capital of the Founder Inc. Group.

SPECIAL GENERAL MEETING

Set out on pages 23 to 24 of this circular is a notice convening the SGM to be held at 10:00 a.m. on 30 August 2004 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 to consider and, if thought fit, approve the Subscription. Save for his holding of 31 share options of Founder Inc. and 600,000 share options of the Company, Mr. Guan and his associates did not hold any Founder Inc. Shares or any shares of the Company as at the Latest Practicable Date. If Mr. Guan and his associates hold shares of the Company as at the date of the SGM, they are required to abstain from voting on the resolution to approve the Subscription.

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 SGM, 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 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 SGM or any adjournment 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.

Pursuant to the Bye-laws of the Company, a poll may be demanded by the chairman of the SGM or:

- (a) by at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the SGM; or
- (b) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the SGM; or
- (c) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the SGM being shares of the Company on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares of the Company conferring that right.

The ordinary resolution to be proposed at the SGM to approve the Subscription will be determined by way of a poll by the Independent Shareholders.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Hantec, considers that the terms and conditions of the Subscription Agreement are fair and reasonable so far as the interests of the Company and the Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription.

GENERAL

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 People's Republic of China.

LETTER FROM THE BOARD

The deemed disposal of equity interests in Founder Inc. by the Group does not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Your attention is drawn to the letter from the Independent Board Committee, the letter from Hantec, the additional information set out in the appendix to this circular and the notice of the SGM.

Yours faithfully,
For and on behalf of
Founder Holdings Limited
Cheung Shuen Lung
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



(Incorporated in Bermuda with limited liability)

(Stock Code: 0418)

13 August 2004

To the Independent Shareholders

Dear Sir or Madam,

SUBSCRIPTION OF NEW SHARES IN AN UNLISTED SUBSIDIARY CONNECTED TRANSACTION

We refer to the circular dated 13 August 2004 issued to the Shareholders (the “Circular”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms and conditions of the Subscription Agreement are fair and reasonable so far as the interests of the Company and the Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole.

Hantec has been appointed as the independent financial adviser to advise us in connection with the Subscription.

Having taken into account the opinion of Hantec and, in particular, the principal factors, reasons and recommendation set out in the letter from Hantec on pages 11 to 17 of the Circular, we consider that the terms and conditions of the Subscription Agreement are fair and reasonable so far as the interests of the Company and the Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter from Hantec, and (iii) the appendix to the Circular.

Yours faithfully,

For and on behalf of

The Independent Board Committee

Dr. Hu Hung Lick, Henry

Mr. Li Fat Chung

* *For identification purpose only*

LETTER FROM HANTEC

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



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

13 August 2004

*To the Independent Board Committee of
Founder Holdings Limited*

Dear Sirs,

SUBSCRIPTION OF NEW SHARES IN AN UNLISTED SUBSIDIARY CONNECTED TRANSACTION

We refer to our appointment to advise the Independent Board Committee in respect of the Subscription Agreement dated 22 July 2004 entered by and between Founder Inc., an 88.19% owned subsidiary of the Company, and the Subscriber, pursuant to which Founder Inc. will issue and allot a total of 870 Founder Inc. Shares to the Subscriber. Upon completion of the Subscription Agreement, the Company's shareholding interests in Founder Inc. will decrease from approximately 88.19% to approximately 63.62%, and the Subscriber will become a substantial shareholder of Founder Inc. holding approximately 27.86% of the enlarged issued share capital of Founder Inc.. Details of the Subscription Agreement are set out in the letter from the Board contained in the circular of the Company dated 13 August 2004 (the "**Circular**"), of which this letter forms part. Capitalised terms used herein without definition shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules since the Subscriber is wholly-owned by Mr. Guan, the President and an executive director of Founder Inc. and a Vice President of the Company, and is a connected person of the Company. The Subscription Agreement is therefore subject to, among other things, the Shareholders' Approval at the SGM. 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 Subscription Agreement.

LETTER FROM HANTEC

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, amongst others, the Subscription Agreement, the audited report of Founder Inc. for the year ended 31 December 2003, the consolidated accounts of Founder Inc. for the year ended 31 December 2003 and the publicly available information of the Company, including its annual reports and announcements. 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 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 Subscription Agreement, we have taken into consideration the following principal factors and reasons:

I. Reasons for the Subscription Agreement

Information about 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 People's Republic of China.

As stated in the Company's annual report for the year ended 31 December 2003 (the "**2003 Annual Report**"), the Company recorded audited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$276 million for the year ended 31 December 2002, and audited consolidated net profit from ordinary activities attributable to shareholders of approximately HK\$7 million for the year ended 31 December 2003. As at 31 December 2003, the Company recorded audited consolidated net assets of approximately HK\$342 million.

LETTER FROM HANTEC

Information about Founder Inc.

The Founder Inc. Group is principally engaged in software development and systems integration in electronic publishing systems and solutions. For the year ended 31 December 2002, Founder Inc. recorded audited consolidated loss before and after taxation and minority interests of approximately HK\$29.9 million and HK\$20.5 million respectively. For the year ended 31 December 2003, Founder Inc. recorded audited consolidated loss before and after taxation and minority interests of approximately HK\$12.9 million and HK\$12.5 million respectively. As at 31 December 2003, Founder Inc. recorded audited consolidated net assets of approximately HK\$23.1 million.

Mr. Guan is the President and an executive director of Founder Inc. and a Vice President of the Company. He is in charge of the day-to-day operation of the Founder Inc. Group and is responsible for the Group's operation in Japan and South Korea.

Reasons for entering into the Subscription Agreement

As mentioned in the letter from the Board, Founder Inc. has exhausted much of its resources in developing its software and systems integration business as well as the businesses of printing and publishing of magazine in the past few years. Founder Inc., upon completion of the Subscription Agreement, will receive proceeds of approximately JPY261,000,000 (equivalent to approximately HK\$18 million), and it may use approximately HK\$10 million of the proceeds to finance the development of a potential business project in its ordinary and usual course of business and the balance of approximately HK\$8 million as its general working capital. If it turns out that the Founder Inc. Group is eventually unable to secure the potential business project, up to approximately HK\$7 million may be used to repay a working capital loan due by Founder Inc. to True Luck Group Limited, an indirect wholly-owned subsidiary of the Company, and the balance of the proceeds will be used as general working capital of the Founder Inc. Group.

The Directors consider that the Subscription Agreement will (i) improve the working capital position and strengthen the financial position of the Founder Inc. Group and (ii) provide further incentive to Mr. Guan for his continued devotion to the business development of the Founder Inc. Group.

- (i) The Founder Inc. Group is principally engaged in software development and systems integration in electronic publishing systems and solutions. According to our discussion with the senior management of the Company, the Subscription would enable the Founder Inc. Group to raise new funds to expand the Founder Inc. Group's electronic publishing systems and solutions business which is necessary to continue the growth of the Founder Inc. Group.

LETTER FROM HANTEC

- (ii) Upon completion of the Subscription, Founder Inc. will obtain approximately JPY261,000,000 (equivalent to approximately HK\$18 million) which, as disclosed in detail above, will be partly used for the general working capital of the Founder Inc. Group that immediately strengthens the cash position of Founder Inc. and enhances Founder Inc.'s liquidity which is important to the daily operation and sustainability of the Founder Inc. Group.
- (iii) Upon completion of the Subscription, Mr. Guan will be interested in approximately 27.86% of the issued share capital of Founder Inc. as enlarged by the Subscription Shares. It is a common tool to retain and motivate key management by binding their interest with that of the company and encourage them to work towards enhancing the value of the company for the benefit of the company and its shareholders. We concur with the Directors that the Subscription would provide further incentive to Mr. Guan and enable the Group to secure his continued devotion to the business development of the Founder Inc. Group.

Taking into account the above, we concur with the opinion of the Directors that the Subscription is in the interests of the Company and the Shareholders.

II. Major terms of the Subscription Agreement

Subscription price

Pursuant to the Subscription Agreement, Founder Inc. will issue and allot a total of 870 Founder Inc. Shares to the Subscriber at JPY300,000 (equivalent to approximately HK\$21,000) each (the “**Subscription Price**”). The Subscription Price was arrived at after arm’s length negotiations between the Subscriber and the shareholders of Founder Inc. with reference to the prior subscription whereby Founder Inc. issued and allotted and the Group subscribed for 1,000 Founder Inc. Shares at JPY300,000 (equivalent to approximately HK\$21,000) each (the “**Prior Subscription Price**”) in November 2003. The Prior Subscription Price was arrived at after arm’s length negotiations between the Group and the shareholders of Founder Inc. with reference to the unaudited net asset value of Founder Inc. as at 30 June 2003.

Founder Inc. is a private company and, to our best understanding, we are not aware of any comparable transactions for the purpose of comparing the valuation of the Subscription Price. Founder Inc. recorded losses for the year ended 31 December 2003 and the approach of price earning multiples is therefore not applicable. There is no cash flow projection of Founder Inc. being carried out by any certified valuer. As such, we analyse the Subscription Price based on the net asset value of Founder Inc.. Founder Inc. recorded audited consolidated net asset value

LETTER FROM HANTEC

per share of approximately JPY141,865 (equivalent to approximately HK\$9,930) as at 31 December 2003, and the Subscription Price represents a premium of approximately 111.47% to the audited consolidated net asset value per share as at 31 December 2003. In view of (i) the premium to be paid by the Subscriber to Founder Inc. and (ii) the Subscription Price is equal to the Prior Subscription Price, we consider the Subscription Price to be fair and reasonable so far as the Company and the Shareholders are concerned as a whole.

Completion

Pursuant to the Subscription Agreement, Founder Inc. will issue and allot a total of 870 Founder Inc. Shares in two tranches for an aggregate consideration of JPY261,000,000 (equivalent to approximately HK\$18 million), and the completion of the Subscription will take place in two stages:

- (i) 333 new Founder Inc. Shares will be subscribed at an aggregate consideration of JPY99,900,000 (equivalent to approximately HK\$7 million) within seven days after the Shareholders' Approval (or such later date as the parties may agree);
- (ii) 537 new Founder Inc. Shares will be subscribed at an aggregate consideration of JPY161,100,000 (equivalent to approximately HK\$11 million) on the date falling on the sixth month after completion of the first stage above (or such later date as the parties may agree).

The Subscription is conditional upon the Shareholders' Approval and the Subscription Agreement does not confer to any party the right to waive the condition.

III. Financial effects on the Group

Cash position

According to the 2003 Annual Report, the Group had cash and cash equivalents of approximately HK\$283 million as at 31 December 2003. Upon completion of the Subscription, the Group's consolidated cash position will then be increased by the amount of approximately HK\$18 million.

LETTER FROM HANTEC

Dilution of the Group's interests in Founder Inc.

The Group holds and will hold approximately 88.19% of the issued share capital of Founder Inc. and approximately 63.62% of the enlarged share capital of Founder Inc. before and after completion of the Subscription, respectively. Notwithstanding such dilution after completion of the Subscription, Founder Inc. will continue to be a non-wholly owned subsidiary of the Company, and hence the accounts of Founder Inc. will continue to be consolidated into the Group's accounts. Should Founder Inc. record further losses for the years ahead, the reduced shareholding of the Group in Founder Inc. would narrow the effective net losses to be consolidated into the Group. On the other hand, the Group will continue to be able to enjoy the profits of Founder Inc. on a consolidation basis in the event that the performance of Founder Inc. turns around in the years ahead. Nevertheless, the percentage share of profit in Founder Inc. will be reduced from 88.19% to 63.62% upon completion of the Subscription.

Net assets and gearing ratio (the ratio of total liabilities divided by total assets)

According to the 2003 Annual Report, the Group had total liabilities of approximately HK\$532 million, minority interests of approximately HK\$87 million and total assets of approximately HK\$961 million, which translate to net assets of approximately HK\$342 million and a gearing ratio of approximately 0.55 as at 31 December 2003. As explained in the sub-paragraph headed "Dilution of the Group's interests in Founder Inc." in this letter, the accounts of Founder Inc. will continue to be consolidated into the Group's accounts upon completion of the Subscription. As such, the Directors confirmed that other than the cash receipt of approximately HK\$18 million from the issue of the Subscription Shares, the Subscription will not have any significant impact on the Group's net assets and gearing ratio upon completion of the Subscription.

Profits

Upon completion of the Subscription, the Group will recognise a gain of the deemed disposal of its interests in Founder Inc. of approximately HK\$7 million (before deducting expenses).

While the dilution effect on shareholding interest of the Company in Founder Inc. from 88.19% to 63.62% is inevitable for placement of the Subscription Shares, the Subscription would slightly improve the cash position of the Group. Taking into account the fact that the Subscription would increase the commitment of Mr. Guan to Founder Inc. and a gain of approximately HK\$7 million before deducting expenses will be recorded by the Group, we consider that the Subscription is in the interests of the Company and the Shareholders.

LETTER FROM HANTEC

RECOMMENDATION

Having considered the above factors and reasons, we are of the view that the terms and conditions of the Subscription Agreement are fair and reasonable so far as the interests of the Company and the Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole. 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 Subscription Agreement.

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

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 BY DIRECTORS

As at the Latest Practicable Date, the Directors and the chief executive of the Company had the following interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange:

(a) Directors' interests in shares of the Company and any of its associated corporations

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

Name of Director	Nature of interest	Number of EC-Founder Shares held
Cheung Shuen Lung	Personal	36,890,100
	As trustee*	60,671,600
Xiao Jian Guo	Personal	8,703,300
Wei Xin	Personal	3,956,000
	As trustee*	60,671,600
Zhang Zhao Dong	Personal	3,956,000
	As trustee*	60,671,600

- * These EC-Founder Shares held by each of the Directors (a total of 60,671,600 EC-Founder Shares) are held by F2 Consultant Limited as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.

- (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 purposes of complying with the minimum company membership requirements.

(b) Directors' rights to acquire shares in the Company and any of its associated corporations

- (i) Directors' interests in share options of the Company

Name of Director	Number of share options held	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Cheung Shuen Lung	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Xiao Jian Guo	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Wei Xin	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Zhang Zhao Dong	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104

- (ii) 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 HK\$
Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Zhang Zhao Dong	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest or short position in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part

XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

As at the Latest Practicable Date, none of the Directors had any direct or indirect 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 since 31 December 2003, being the date to which the latest published audited consolidated accounts of the Company were made up.

No Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

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 and the chief executive of the Company, the following corporation (not being a Director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, 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	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation	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) were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

Name of subsidiary	Name of shareholder	Percentage of shareholding
Founder Searchage Technology Limited	Webforce Limited	30%
Founder Information Ltd.	吉呈科技股份有限公司	26.32%
Hope Information Technology Co., Ltd.	中央日報股份有限公司	49.05%

Save as disclosed herein, the Directors and the chief executive of the Company are not aware of any person (other than a Director or the chief executive of the Company or his associates or a member of the Group) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who has, 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 other member of the Group or had any options in respect of such capital as at the Latest Practicable Date.

4. DIRECTORS' SERVICE CONTRACTS

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

5. EXPERT

Hantec is a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purposes of the SFO.

As at the Latest Practicable Date, Hantec was not beneficially interested in the securities of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Hantec did not have any direct or indirect 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 since 31 December 2003, being the date to which the latest published audited consolidated accounts of the Company were made up.

Hantec has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter dated 13 August 2004 and references to its name, in the form and context in which they appear.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, being the date to which the latest published audited consolidated accounts of the Company were made up.

7. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Subscription Agreement will be available for inspection at the office of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including 26 August 2004.

NOTICE OF SPECIAL GENERAL MEETING



(Incorporated in Bermuda with limited liability)

(Stock Code: 0418)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Founder Holdings Limited (the “Company”) will be held at 10:00 a.m. on 30 August 2004 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** the share application agreement dated 22 July 2004 (the “Subscription Agreement”) entered between Founder International Inc. (“Founder Inc.”) and Media Champion Holdings Limited (the “Subscriber”) in relation to the subscription by the Subscriber of a total of 870 new ordinary shares in the share capital of Founder Inc. (the “Subscription Shares”), a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification, the transactions contemplated by the Subscription Agreement and the execution and performance thereof be and are hereby approved, confirmed and ratified; and the issue and allotment of the Subscription Shares by Founder Inc. to the Subscriber pursuant to the Subscription Agreement be and is hereby approved.”

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

Hong Kong, 13 August 2004

* *For identification purpose only*

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) A shareholder 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 needs not be a shareholder of the Company. Completion and return of the form of proxy will not preclude a shareholder 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 personally 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 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), if Mr. Guan Xiang Hong and his associates (as defined in the Listing Rules) hold shares of the Company as at the date of the meeting, they are required to abstain from voting on the above resolution.
- (5) The ordinary resolution as set out above will be determined by way of a poll.