
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.

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



CONNECTED AND DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTIONS

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



A letter from the board of directors of Founder Holdings Limited is set out on pages 5 to 13 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 14 of this circular. A letter from Tai Fook Capital Limited containing its advice to the Independent Board Committee is set out on pages 15 to 25 of this circular.

A notice convening the special general meeting to be held at 10:30 a.m. on 18 March 2005 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 32 to 33 of this circular. Whether or not you are intended 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.

28 February 2005

* For identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1-4
Letter from the Board	5-13
Letter from the Independent Board Committee	14
Letter from Tai Fook	15-25
Appendix – General information	26-31
Notice of Special General Meeting	32-33

DEFINITIONS

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

“Agreement”	the sale and purchase agreement entered into between Founder Hong Kong, the Purchaser and Peking Founder dated 7 February 2005 in relation to the Disposal and the Loan Assignment
“associate(s)”	has the meaning as ascribed to it in the Listing Rules
“Company”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Disposal and the Loan Assignment in accordance with the terms and conditions of the Agreement
“Consideration”	JPY693,520,600 (equivalent to approximately HK\$51,667,285), being the consideration for the Disposal of JPY623,520,600 and the consideration for the Loan Assignment of JPY70,000,000, which shall be satisfied by the Purchaser in full upon Completion
“Continuing Connected Transactions”	transactions contemplated under the Japan Software Agreement which are to be carried on by Founder Electronics and Founder Japan, on a continuous basis, upon the Completion
“Directors”	the directors of the Company
“Disposal”	the disposal of the entire issued share capital of True Luck held by Founder Hong Kong on the date of Completion to the Purchaser pursuant to the terms and conditions of the Agreement
“Founder Electronics”	Beijing Founder Electronics Co., Ltd., a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Founder Hong Kong”	Founder (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Founder Japan”	方正株式會社 (Founder International Inc.*), a company incorporated in Japan with limited liability and is owned as to 71.29% by True Luck

DEFINITIONS

“Founder Japan Group”	Founder Japan and its subsidiaries and associated companies, which includes 方正GIS株式會社(Founder International GIS Inc.*); 北京方正國際軟件系統有限公司; 武漢方正國際軟件系統有限公司; Founder Korea Co., Ltd. (韓國方正株式會社*); Founder International North America Inc.; パワープリント株式會社 (Power Print Inc.*); 北京北大方正信息科技有限公同 and 北京方正萬普數據科技有限公同
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the board committee appointed by the board of directors of the Company, comprising all the independent non-executive directors of the Company, namely Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Mrs Wong Lam Kit Yee
“Independent Shareholders”	Shareholders other than Peking Founder and its associates
“Independent Third Party”	the independent third party not connected with the Company or the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates, within the meaning of the Listing Rules, and none of them holds more than 10% of the issued share capital of the Company
“Japan Annual Cap”	the annual maximum amount payable by Founder Japan to Founder Electronics under the Japan Software Agreement for each of the year ending 31 December 2005, 2006 and 2007 respectively
“Japan Software Agreement”	the agreement entered into between Founder Electronics and Founder Japan dated 7 February 2005 in relation to the sale and purchase of the Package Products and the provision of other related services
“Latest Practicable Date”	23 February 2005, 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
“Loan Assignment”	the assignment of the Shareholders’ Loan from Founder Hong Kong to the Purchaser in accordance with the terms and conditions of the deed of loan assignment to be signed upon Completion
“OEM”	original equipment manufacturer, a manufacturer that sells equipment to a reseller for rebranding or repackaging

DEFINITIONS

“Package Products”	printing software developed by Founder Electronics under the brandnames of EagleRIP, EagleProof, EagleDot, SuperLine, ElecRoc, EagleFAM and EagleAGS
“Peking Founder”	Peking University Founder Group Corporation, the controlling shareholder of the Company, which holds approximately 32.67% of the issued share capital of the Company
“PRC”	the People’s Republic of China
“Purchaser”	Founder Information (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Peking Founder
“R&D”	research and development of software development kits
“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 resolutions proposed in the notice convening the special general meeting dated 18 March 2005 contained herein
“Shareholders”	holders of shares of HK\$0.10 each in the issued share capital of the Company
“Shareholders’ Loan”	the loan in the amount of JPY70,000,000 due and owing by True Luck to Founder Hong Kong without interest as at the date of Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purposes of the SFO, who has been appointed as the independent financial adviser to the Independent Board Committee
“True Luck”	True Luck Group Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Founder Hong Kong
“True Luck Group”	True Luck and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“JPY” Japanese yen, the lawful currency of Japan

“US\$” United States dollars

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

** For identification purpose only*

LETTER FROM THE BOARD



(Incorporated in Bermuda with limited liability)

(Stock Code: 0418)

Executive Directors:

Mr Cheung Shuen Lung (*Chairman*)
Professor Xiao Jian Guo (*Deputy Chairman*)
Professor Wei Xin
Mr Zhang Zhao Dong
Mr Xia Yang Jun (*President*)

Independent non-executive Directors:

Dr Hu Hung Lick, Henry
Mr Li Fat Chung
Mrs Wong Lam Kit Yee

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in

Hong Kong:
Unit 1408, 14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

28 February 2005

To the Shareholders

Dear Sir or Madam,

CONNECTED AND DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

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

* *For identification purpose only*

LETTER FROM THE BOARD

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

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

The Independent Board Committee has been established to advise the Independent Shareholders regarding the fairness and reasonableness of the terms of the Agreement and the Japan Software Agreement and the transactions and matters contemplated therein in so far as the interest of the Shareholders are concerned as a whole. None of the members of the Independent Board Committee has a material interest in such relevant transactions or arrangements. Tai Fook 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 Agreement, the Japan Software Agreement constituting the Continuing Connected Transactions and the Japan Annual Cap, the advice from Tai Fook to the Independent Board Committee and the recommendation of the Independent Board Committee to the Independent Shareholders, and to seek your approval of the resolutions set out in the notice convening the SGM.

THE AGREEMENT

Date: 7 February 2005

- Parties:
- (1) Founder Hong Kong, as vendor. Founder Hong Kong is an investment holding company.
 - (2) Founder Information (Hong Kong) Limited, as purchaser. Its principal activities are export of electronics products and provision of management services.
 - (3) Peking Founder, as guarantor. Peking Founder, through its subsidiaries, is principally engaged in software development, hardware manufacture, finance and traditional industry.

Assets to be sold

Pursuant to the Agreement, Founder Hong Kong has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of True Luck and the Shareholders' Loan. The principal asset of True Luck is its approximately 71.29% shareholding in Founder Japan,

LETTER FROM THE BOARD

which in turn is the holding company of a group of companies incorporated in Japan, the PRC, South Korea and Canada respectively, the principal businesses of which are software development and systems integration in electronic publishing systems and solutions which are mainly carried on in Japan. Except for Media Champion Holdings Limited, a company owned by a director of Founder Japan and which holds approximately 11.95% of its issued share capital, the other shareholders of Founder Japan are Independent Third Parties.

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

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

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

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

Consideration

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

The Disposal

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

LETTER FROM THE BOARD

The principal asset of True Luck is its interest in Founder Japan. The sale of the entire issued share capital of True Luck under the Disposal would effectively amount to the disposal of the Company's entire holding, through True Luck, of 1,987 shares in Founder Japan, representing approximately 71.29% of its issued share capital. Upon Completion, True Luck will no longer be a subsidiary of the Group. The consideration payable for the Disposal totaling JPY623,520,600 would therefore amount to the equivalent of JPY 313,800 (equivalent to approximately HK\$23,378) per share of Founder Japan which would represent a premium of approximately 121.20% over the audited consolidated net asset value per share of Founder Japan as at 31 December 2003 of approximately JPY 141,865 (equivalent to approximately HK\$10,569). The above effective consideration under the Disposal of JPY313,800 per share of Founder Japan would also represent a premium of approximately 210.51% over the unaudited consolidated net asset value per share of Founder Japan as at 30 June 2004 of approximately JPY 101,061 (equivalent to approximately HK\$7,529).

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

The Loan Assignment

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

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

LETTER FROM THE BOARD

Conditions

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

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

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in software development and systems integration relating to the media industry and certain other industries, and the distribution of information products in the PRC.

True Luck Group has been loss-making since 2001 and would require substantial new financial resources for the continuing support of the operation and development of Founder Japan's existing Japanese language electronic publishing software business. For the year ended 31 December 2003, the consolidated loss before and after taxation and minority interests of True Luck amounted to approximately HK\$6.1 million and HK\$2.8 million respectively. For the six months ended 30 June 2004, True Luck recorded a consolidated loss before and after taxation and minority interests of approximately HK\$6.9 million and HK\$6.0 million respectively. As at 30 June 2004, True Luck had a consolidated net asset deficit of HK\$9.1 million. True Luck Group has been loss-making in the past few years and although the loss of True Luck Group has been reduced, the Directors have no solid ground to believe when True Luck will record a profit again in the coming future. The Directors consider that the Disposal would relieve the financial burden that the Company would have to shoulder in order to fund the continuing business development and operation of the True Luck Group and the terms of the transaction are fair and reasonable and in the interest of the Shareholders as a whole. The Disposal would also allow the Company to focus its resources on its core business being software development and systems integration relating to multi-media industry in the PRC. In addition, it is estimated that a gain on disposal of approximately HK\$26 million calculated by reference to the Consideration and the consolidated net asset value of True Luck as at 30 November 2004 and after the Capitalisation will be recorded by the Group. The net proceeds from the Disposal is intended to be used as general working capital. Upon Completion, the cash balance of Founder Hong Kong will be increased and the investment cost in subsidiary of Founder Hong Kong and the amount of receivables due from True Luck will be reduced. There will have a positive impact on the earnings and assets and liabilities of the Group upon Completion.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

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

Japan Software Agreement

Date: 7 February 2005

Parties: (1) Founder Japan

(2) Founder Electronics

Subject:

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

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

LETTER FROM THE BOARD

Consideration:

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

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

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

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

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

LETTER FROM THE BOARD

Japan Annual Cap

Pursuant to the terms of the Japan Software Agreement and based on (a) the historical sales volume of Founder Japan; (b) the historical service fees derived from the OEM business; (c) the Group's turnover for the two years ended 31 December 2004 and its anticipated growth; and (d) the expected increase in the transaction volume by Founder Japan in light of the estimated market growth rate of the demand for software products in Japan in the coming three years, the Directors propose that the cap amount of the total transactions under the Japan Software Agreement for each of the three years ending 31 December 2005, 2006 and 2007 will be as follows:

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

The Directors propose that the Japan Annual Cap for each of the three years ending 31 December 2005, 2006 and 2007 shall not exceed US\$860,000 (equivalent to approximately HK\$6,708,000), US\$1,000,000 (equivalent to approximately HK\$7,800,000) and US\$1,350,000 (equivalent to approximately HK\$10,530,000) respectively. The Continuing Connected Transactions constitute non-exempt continuing connected transactions and therefore pursuant to the Listing Rules, the Japan Annual Cap is subject to the approval of the Independent Shareholders and the reporting requirements for disclosure in details in the Company's annual reports and accounts, as well as annual review by the independent non-executive directors and the auditors of the Company.

If the Japan Software Agreement constituting the Continuing Connected Transactions is renewed or if there is a material change to its terms, or if any of the Japan Annual Caps is exceeded, the Company must re-comply with the reporting and announcement requirements and the independent shareholders' approval requirements under Rules 14A35(3) and (4) of the Listing Rules.

RECOMMENDATIONS

As the Disposal and the Loan Assignment will be carried out pursuant to the terms and conditions of the Agreement for the reasons disclosed above, and the Continuing Connected Transactions will be conducted in the ordinary and usual course of the business of the Company and on normal commercial terms, the Independent Board Committee, having taken into account the advice of Tai Fook, is of the view that the terms of the Agreement, the Japan Software Agreement and the Japan Annual Cap are fair and reasonable insofar as the interest of the Shareholders as a whole are concerned and accordingly would recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the SGM.

LETTER FROM THE BOARD

SGM

A notice convening the SGM to be held at 10:30 a.m. on 18 March 2005 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out in this circular. At the SGM, resolutions will be proposed for the Independent Shareholders to consider, and if thought fit, to approve the Agreement, the Japan Software Agreement and the transactions and matters contemplated therein as set out in such notice.

Enclosed with this circular is a form of proxy for use at the SGM. Whether or not you are intended to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon contained in the notice of the SGM of this circular. The 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.

GENERAL

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



(Incorporated in Bermuda with limited liability)

(Stock Code: 0418)

28 February 2005

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED AND DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 28 February 2005 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 Agreement, the Japan Software Agreement constituting the Continuing Connected Transactions and the Japan Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned and the Disposal, the Loan Assignment and the Continuing Connected Transactions are in the interests of the Group and the Independent Shareholders as a whole.

Tai Fook has been appointed as the independent financial adviser to advise us in connection with the transactions contemplated under the Agreement and the Japan Software Agreement and the Japan Annual Cap.

Having taken into account the opinion of Tai Fook and, in particular, the principal factors, reasons and recommendation set out in the letter from Tai Fook on pages 15 to 25 of the Circular, we consider that the terms and conditions of the Agreement, the Japan Software Agreement constituting the Continuing Connected Transactions and the Japan Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned and the Disposal, the Loan Assignment and the Continuing Connected Transactions are in the interests of the Group and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the SGM.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter from Tai Fook, 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 Mrs Wong Lam Kit Yee

* *For identification purpose only*

LETTER FROM TAI FOOK

The following is the text of a letter from Tai Fook in connection with the terms of the Agreement, the Japan Software Agreement constituting the Continuing Connected Transactions and the Japan Annual Cap which has been prepared for the purpose of inclusion in this circular:



25th Floor
New World Tower
16-18 Queen's Road
Central
Hong Kong

28 February 2005

*To the Independent Board Committee of
Founder Holdings Limited*

Unit 1408, 14th Floor, Cable TV Tower
9 Hoi Shing Road, Tsuen Wan
New Territories, Hong Kong

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Agreement, the Japan Software Agreement and the Japan Annual Cap, details of which are contained in the circular dated 28 February 2005 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

On 7 February 2005, Founder Hong Kong entered into the Agreement with the Purchaser and Peking Founder pursuant to which Founder Hong Kong has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of True Luck and the Shareholders' Loan (the "Disposal Transaction"). The Consideration for the Disposal Transaction amounts to JPY693,520,600 (equivalent to approximately HK\$51.7 million), being the sum of the consideration for the Disposal and the consideration for the Loan Assignment. The Consideration shall be paid in cash by the Purchaser upon Completion.

As at the Latest Practicable Date, the Company is owned as to approximately 32.67% by Peking Founder, a controlling shareholder and a connected person of the Company under the Listing Rules. The Purchaser is a subsidiary of Peking Founder and thus an associate (as defined under the Listing Rules) of Peking Founder. Accordingly, the Disposal Transaction constitutes a connected transaction for the Company

LETTER FROM TAI FOOK

under Rule 14A.13 of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.18, 14A.45 to 14A.54 of the Listing Rules. Peking Founder and its associates (as defined under the Listing Rules) will abstain from voting at the SGM in respect of the resolution for approving the Agreement. The Disposal Transaction also constitutes a discloseable transaction for the Company under the Listing Rules.

The principal asset of True Luck is its approximately 71.29% shareholding in Founder Japan, which in turn owns a group of companies the principal businesses of which are software development and systems integration in electronic publishing systems and solutions (the "EPS Business"). There has been continuing sales of certain software products and provision of certain related services by Founder Electronics, a subsidiary of the Company, to Founder Japan. Founder Japan will, upon Completion, become an associate (as defined under the Listing Rules) of Peking Founder and thus a connected person of the Company. As such, the above described transactions, if continue after Completion, will constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are subject to the disclosure requirements under Rules 14A.37 to 14A.40, 14A.45 to 14A.47 and the approval of the independent shareholders under Rule 14A.48 of the Listing Rules. Peking Founder and its associates (as defined under the Listing Rules) will abstain from voting at the SGM in respect of the resolution for approving the Japan Software Agreement and the Japan Annual Cap.

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee as to whether the terms and conditions of the Agreement, the Japan Software Agreement and the Japan Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Independent Shareholders as a whole. We are independent of the Company and its associates (as defined under the Listing Rules).

In formulating our opinion, we have relied on the information and facts supplied to us by the management and directors of the Company and have assumed that all such information and facts and any representations made to us are true, accurate and complete as at the date hereof. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them. We have sought and received confirmation from the management and directors of the Company that all relevant information has been supplied to us and that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of the Company or any of its subsidiaries and associates (as defined under the Listing Rules).

LETTER FROM TAI FOOK

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Disposal Transaction and the Japan Software Agreement, we have considered the following principal factors and reasons:

1. The Disposal Transaction

1.1 *Background of and reasons for the Disposal Transaction*

The Group is principally engaged in (i) the provision of software development and systems integration services to media and non-media sectors (the “Software Business”); and (ii) the distribution of information products (the “Distribution Business”). According to the segment information set out in the unaudited interim report for the six months ended 30 June 2004 of the Company, about HK\$369.2 million (approximately 42%) and HK\$498.7 million (approximately 57%) of the total turnover of the Group for the six months ended 30 June 2004 were attributable to the Software Business and the Distribution Business respectively. On the segment results, about HK\$1.9 million and HK\$2.9 million of the segment gains are attributable to the Software Business and the Distribution Business respectively for the six months ended 30 June 2004.

Since its establishment, Founder Japan, being the operating non-wholly owned subsidiary of True Luck, has been principally engaged in the EPS Business. Despite the segment gains of the Software Business as a whole, Founder Japan posted consolidated net losses for the two years ended 31 December 2002 and 2003, and the six months ended 30 June 2004.

Performance of True Luck and Founder Japan

As set out in the Letter from the Board in the Circular, the principal asset of True Luck is its approximately 71.29% shareholding in Founder Japan, which in turn owns a group of companies the principal businesses of which are the EPS Business. Founder Japan was set up by the Group in 1996 to develop the Group’s business in Japan and South Korea.

Due to the unsatisfactory performance of the Founder Japan Group, the True Luck Group has been loss-making in the past few years. For each of the two years ended 31 December 2002 and 2003, True Luck recorded a consolidated net loss of approximately HK\$24.4 million and approximately HK\$2.8 million respectively. With a view to improving its operations and as part of its restructuring exercise, Founder Japan partially disposed of its equity interest in Power Print Inc., one of its loss-making subsidiaries, in May 2004, as stated in the 2004 interim report of the Company. Nevertheless, True Luck recorded a consolidated net loss of approximately HK\$6.0 million for the six months ended 30 June 2004. As set out in the Letter from the Board in the Circular, the Directors have no solid ground to estimate when the True Luck Group will record a profit in the coming future.

LETTER FROM TAI FOOK

Should the True Luck Group record further losses for the years ahead, the net losses would be consolidated into the financial results of the Group and thus impair the financial performance of the Group.

As stated in the annual report of the Company for the year ended 31 December 2003 and the interim report of the Company for the six months ended 30 June 2004, the Group has been making efforts to improve its operations. These efforts include business restructuring where loss-making or low margin businesses have been scaled down or terminated, and resources were re-allocated in order to enhance the Group's competitiveness and productivity.

In this connection, the Disposal Transaction is in line with the Group's laid-down strategy, and represents an effort of the Group to improve its competitiveness and productivity.

Funding requirements of the Founder Japan Group

Due to the continuous loss-making position of the Founder Japan Group, the Group excluding the Founder Japan Group (the "Remaining Group") has been providing funding, through True Luck, to the Founder Japan Group in the past few years for its business operations by way of both share capital subscription and shareholders' loan.

In November 2003, the Group, through True Luck, injected JPY300,000,000 (equivalent to approximately HK\$22.4 million) to Founder Japan by subscribing for 1,000 shares in Founder Japan in cash at JPY300,000 per share (the "2003 Subscription"). In addition, the Group, through True Luck, has been providing funding to Founder Japan by way of shareholders' loan. As at the date of the Agreement, the outstanding balance of the shareholders' loan amounted to JPY70,000,000 (equivalent to approximately HK\$5.2 million).

Apart from the 2003 Subscription made by the Group and the continuous financing support from the Group through shareholders' loan, the difficulty in the liquidity situation faced by the Founder Japan Group is also evidenced by a subscription of new shares in July 2004 (the "2004 Subscription"), details of which were set out in the circular of the Company dated 13 August 2004. As stated in the circular in relation to the 2004 Subscription, Founder Japan has exhausted much of its resources in its business development in the past few years and the 2004 Subscription is principally conducted to improve the working capital position and strengthen the financial position of the Founder Japan Group.

As advised by the Directors, based on the existing financial conditions and operating performance of the Founder Japan Group, the Directors expected that further financing will have to be provided in order to fund the continuing business development and operations of the Founder Japan Group. However, the Directors believe that even with further funding, the future profitability of the Founder Japan Group is uncertain given its continuous unsatisfactory performance in the past few years.

LETTER FROM TAI FOOK

Business strategy of the Group

We understand from the Directors that the Disposal Transaction also represents a strategic move of the Group to rationalise the geographic coverage of its business. As stated before, the principal business of the Founder Japan Group is the EPS Business, and it was established by the Group with a view to developing the EPS Business in Japan and South Korea. As advised by the Directors, after all these years of operations, they found that it is extremely difficult to explore the EPS Business in South Korea, and the sales from such market have been minimal. For the EPS Business in Japan, it is costly for the Founder Japan Group, being a small foreign company, to compete with the big players in the field. The management of the Group has assessed the market portfolios of its business, and decided to focus the Group's resources in its core business in the PRC, as stated in the Letter from the Board.

Proceeds from the Disposal Transaction

As set out in the Letter from the Board in the Circular, the Company intends to use the proceeds from the Disposal Transaction (estimated to be approximately HK\$51.7 million before taking into account any expenses) as general working capital of the Remaining Group. The proceeds from the Disposal Transaction will enhance the working capital position of the Remaining Group. As advised by the Directors, after completion of the Disposal Transaction, the Group will focus its resources on its core business in the PRC.

Conclusion

The financial results of the Group would continue to be impaired by the True Luck Group should the Founder Japan Group continue to incur operating losses in the future. We consider that the Disposal Transaction represents an opportunity for the Company to dispose of a loss-making business and to conduct a clear-cut financial break between the Remaining Group and the True Luck Group.

In view of: 1) the loss-making track record of the True Luck Group for the past few years; 2) the funding requirements of the Founder Japan Group which is the operating group of True Luck; 3) the business strategy of the Group; and 4) the availability of funds from the Disposal for the development of the business of the Remaining Group, we are of the view that the Disposal Transaction would enhance the Group's financial strength and profitability, and allow the Group to focus its resources on its core business in its core markets, at the same time of relieving the Group from its possible future financing burden to fund the business development and operations of a loss-making business. Based on the above, we consider that the Disposal Transaction is in the interests of the Group and the Independent Shareholders as a whole.

LETTER FROM TAI FOOK

1.2 Basis of consideration

The Consideration of the Disposal Transaction is JPY693,520,600 (equivalent to approximately HK\$51.7 million), being the sum of (i) the consideration for the Disposal, which amounts to JPY623,520,600; and (ii) the consideration for the Loan Assignment, which amounts to JPY70,000,000.

Since the consideration payable for the Loan Assignment is equivalent to the outstanding balance of the Shareholders' Loan, which is JPY70,000,000, and the Company expects that the outstanding amount of the Shareholders' Loan as at the date of Completion will not be materially different from the above mentioned amount, we will focus our analysis on the consideration for the Disposal.

Consideration for the Disposal

The consideration for the Disposal is based on JPY313,800 per share (the "Disposal Price") multiplied by 1,987 shares in Founder Japan, being the Company's entire holding in Founder Japan through True Luck. The Disposal Price was determined after arm's length negotiation between the parties with reference to a number of past transactions including (i) the subscription price of JPY300,000 per share of Founder Japan paid by True Luck under the 2003 Subscription; (ii) the subscription price of JPY300,000 per share of Founder Japan under the 2004 Subscription; and (iii) the subscription price of JPY300,000 per share of Founder Japan under a share subscription on 12 November 2004 by an Independent Third Party (owned by certain staff members of the Founder Japan Group) of 201 shares of Founder Japan.

The Disposal Price represents a premium of approximately 121.20% over the audited consolidated net asset value per share of approximately JPY 141,865 of Founder Japan as at 31 December 2003, and a premium of approximately 210.51% over the unaudited consolidated net asset value per share of approximately JPY101,061 of Founder Japan as at 30 June 2004.

Conclusion

Taking into consideration that the Disposal Price represents a price-to-book ratio of approximately 3.1 times of the unaudited consolidated net asset value per share of Founder Japan as at 30 June 2004, we are of the view that the consideration for the Disposal is fair and reasonable so far as the interests of the Group and the Independent Shareholders as a whole are concerned.

LETTER FROM TAI FOOK

1.3 *Financial effects of the Disposal Transaction*

Net tangible asset value

As stated in the Letter from the Board in the Circular, apart from the Shareholders' Loan, True Luck is also indebted to Founder Hong Kong in the amount of approximately HK\$23.6 million on current account as at the Latest Practicable Date which prior to Completion, all amounts outstanding from True Luck to Founder Hong Kong other than the Shareholders' Loan will be capitalised into fully-paid shares of True Luck which will form part of the issued share capital of True Luck to be sold to the Purchaser under the Disposal. As the gross proceeds from the Disposal Transaction is higher than the aggregate amount of the adjusted consolidated net asset value of the True Luck Group as at 30 June 2004 and the Shareholders' Loan, the net asset value of the Group would increase as a result of the completion of the Disposal Transaction assuming (i) the Disposal Transaction had been completed and the Consideration had been paid in full as at 30 June 2004; and (ii) the Shareholders' Loan as at 30 June 2004 was amounted to JPY70,000,000.

Working capital

According to the unaudited interim report of the Company for the six months ended 30 June 2004, the Group had cash and cash equivalents (including pledged deposits) of approximately HK\$242.6 million as at 30 June 2004. As at 30 June 2004, the True Luck Group had bank deposits and cash of approximately HK\$8.1 million. Without taking into account any expenses, the gross proceeds from the Disposal Transaction will generate cash inflow of approximately HK\$51.7 million to the Remaining Group. As advised by the Directors, the Company intends to use the proceeds from the Disposal Transaction as general working capital of the Remaining Group.

Earnings

According to the Letter from the Board in the Circular, it is estimated that a gain on disposal of approximately HK\$26 million will be recorded by the Company. Such a gain on disposal is determined by reference to the Consideration and the adjusted consolidated net asset value of the True Luck Group as at 30 November 2004. Based on the loss-making records of the True Luck Group and the expected gain on disposal that would be recorded by the Group, it is expected that the completion of the Disposal Transaction would have a positive impact on the earnings of the Group.

LETTER FROM TAI FOOK

Conclusion

We are of the view that the Disposal Transaction would enable the Group to dispose of a loss-making business and apply the net proceeds from the Disposal Transaction to the business development of the Remaining Group rather than having to fund a loss-making business which the Directors have no solid ground to estimate when the operating results can turn around. After taking into account the enhancement in the net asset value, the working capital as well as the profitability of the Group, we are of the view that the Disposal Transaction is in the interests of the Group and the Independent Shareholders as a whole.

2. Japan Software Agreement

2.1 Background and terms of the Japan Software Agreement

The principal asset of True Luck is its approximately 71.29% shareholding in Founder Japan, which in turn owns a group of companies the principal business of which is the EPS Business mainly carried on in Japan. There have been continuing sales of Package Products and provision of certain services in relation to its OEM business by Founder Electronics, an indirect wholly-owned subsidiary of the Company, to Founder Japan. Such services include R&D services, maintenance and support services and the grant by Founder Electronics to Founder Japan of a non-exclusive, non-transferable, non-sublicensable licence to use the applicable passcode for the operation of the software developed under the R&D services.

The Continuing Connected Transactions are in the ordinary and usual course of business of Founder Electronics first commencing in the second half of 2002.

For each of the two years ended 31 December 2003 and 2004, the total consideration paid for the Continuing Connected Transactions by Founder Japan to Founder Electronics amounted to approximately US\$208,000 (equivalent to approximately HK\$1.6 million) and US\$664,500 (equivalent to approximately HK\$5.2 million) respectively.

Founder Japan will, upon Completion, become an associate (as defined under the Listing Rules) of Peking Founder and thus a connected person of the Company. As such, the Continuing Connected Transactions after Completion will constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and the Japan Software Agreement and the Japan Annual Cap are subject to certain disclosure requirements and the independent shareholders' approval.

LETTER FROM TAI FOOK

On 7 February 2005, Founder Japan and Founder Electronics entered into the Japan Software Agreement in respect of the Continuing Connected Transactions, details of which are set out in the Letter from the Board in the Circular. The consideration for the product price under the Japan Software Agreement is determined by reference to a pre-determined price list drawn up by Founder Electronics and made available to all other worldwide independent customers and the sales volume achieved by the relevant distributor. Founder Electronics will periodically review the price list by reference to the prevailing market prices of such particular products from time to time based on the customer's historical sales volume, growth potential and duration of business relationship. The consideration for the R&D service fee derived from the OEM business under the Japan Software Agreement will be charged at a monthly fee of approximately US\$3,000 per person required to be provided by Founder Electronics to participate in the project required by Founder Japan. The licence fee to be charged to Founder Japan under the Japan Software Agreement will be fixed at no more than 50% of the licence fee of the software received by Founder Japan from its customers and is determined after arm's length negotiation between Founder Electronics and Founder Japan based on the fact that both parties will share the risk and benefits of such OEM sales. The maintenance and support fee to be charged by Founder Electronics to Founder Japan will be charged at 10% of the R&D services per annum upon request. The Japan Software Agreement will have a fixed term of one year renewable for consecutive one year periods automatically unless either party provides to the other party a notice of termination at least 60 days prior to expiry. Either party may renew the term in writing upon expiry of the third year, subject to compliance with the Listing Rules. In addition, Founder Electronics can unilaterally terminate the Japan Software Agreement without cause by serving Founder Japan with not less than 90 days' written notice. It is expected that the consideration payable by Founder Japan under the Continuing Connected Transactions on an annual basis will exceed the threshold set out in Rule 14A.34 of the Listing Rules in the coming years.

We are of the view that it is in the interests of the Group to carry on the Continuing Connected Transactions with Founder Japan, since it provides the Group with an additional source of recurring income as well as an additional geographic coverage for the Group's products at the same time of, after the Disposal Transaction, not having to suffer from the impairment in the Group's performance resulted from the unsatisfactory financial results of the Founder Japan Group.

As confirmed by the Directors, the terms of the Continuing Connected Transactions have been and will continue to be determined after arm's length negotiations between Founder Electronics and Founder Japan. The Continuing Connected Transactions have been and will continue to be conducted in the ordinary and usual course of business of Founder Electronics and on normal commercial terms.

Based on the above considerations, we concur with the Directors' view that the terms of the Japan Software Agreement and the Continuing Connected Transactions contemplated therein, which have been entered into in the ordinary and usual course of business of Founder Electronics, are negotiated at an arm's length basis and agreed on normal commercial terms, and are fair and reasonable so far as the interests of the Group and the Independent Shareholders as a whole are concerned.

LETTER FROM TAI FOOK

2.2 Background and basis of the Japan Annual Cap

As stated in the Letter from the Board in the Circular, the Board proposes that the Japan Annual Cap for the Continuing Connected Transactions under the Japan Software Agreement for each of the three years ending 31 December 2005, 2006 and 2007 will not exceed US\$0.86 million (equivalent to approximately HK\$6.7 million), US\$1.00 million (equivalent to approximately HK\$7.8 million) and US\$1.35 million (equivalent to approximately HK\$10.5 million) respectively. The Japan Annual Cap is determined by reference to (a) the historical sales volume of Founder Japan; (b) the historical service fees derived from the OEM business; (c) the Group's turnover for the two years ended 31 December 2004 and its anticipated growth; and (d) the expected increase in the transaction volume by Founder Japan in light of the estimated market growth rate of the demand for software products in Japan in the coming three years. The breakdown of the Japan Annual Cap for the three years ending 31 December 2007 are estimated to be as follows:

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

As regards the annual cap amounts for the sale of Package Products, we have reviewed the internal projections of the Group in terms of its estimated sales volume, sales price and product mix and have considered the historical sales volume and the pre-determined price list drawn up by Founder Electronics for all of its worldwide customers. As advised by the Directors, after years of operation in Japan through Founder Japan, Founder Electronics has identified that certain package products have proved to be accepted by the digital printing market in Japan. Founder Electronics also anticipates that the demand for such package products will continue to grow in the coming years. The cap amounts for the sale of Package Products for each of the three years ending 31 December 2005, 2006 and 2007 are therefore set with an annual progressive increment of approximately US\$7,480, US\$17,000 and US\$28,000 respectively to cater for such business development.

In connection with the annual cap amounts of the OEM business, we have reviewed the internal projections of the Group and have considered the historical licence fee, R&D

LETTER FROM TAI FOOK

fee and maintenance and support fee received by the Group in each of the years ended 31 December 2003 and 2004. As advised by the Directors, such annual increments have been set in consideration of (i) the anticipated increase of units of the software products to be developed under the R&D services and distributed by Founder Japan to the OEM customers; (ii) the potential new R&D projects to be undertaken by Founder Electronics; and (iii) the corresponding increase in the amount of maintenance and support services to be required as a result of the anticipated increase in R&D services. According to the Directors, the annual cap amounts of the OEM business are principally determined with reference to the historical service fees derived under the OEM business and the expected increase in the transaction volume by Founder Japan in the coming three years. The cap amounts for the OEM business for each of the three years ending 31 December 2005, 2006 and 2007 are therefore set with an annual increment of approximately US\$188,000, US\$123,000 and US\$322,000 respectively.

Based on the above and after taking into account of the recurring nature of the transactions and that the terms of the Japan Software Agreement are determined between Founder Electronics and Founder Japan after arm's length negotiation, we consider that the level of the Japan Annual Cap for the Continuing Connected Transactions was made by the Directors after due and careful consideration and therefore, we concur with the Directors' view that basis in determining the Japan Annual Cap and the Japan Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

In light of the above principal factors and reasons, we consider that the terms and conditions of the Agreement, the Japan Software Agreement and the Japan Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned, and the Disposal Transaction and the Continuing Connected Transactions are in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Agreement, the Japan Software Agreement and the Japan Annual Cap.

Yours faithfully,

For and on behalf of

Tai Fook Capital Limited

Derek C. O. Chan

Deputy Managing Director

April Chan

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 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) 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
方正株式會社 (Founder International Inc.*)	Media Champion Holdings Limited	11.95%
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%

* For identification purpose only

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

Tai Fook is a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purposes of the SFO.

As at the Latest Practicable Date, Tai Fook 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, Tai Fook 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.

Tai Fook has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter dated 28 February 2005 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. LITIGATION

Neither the Company nor any other member of the Group is engaged in any litigation or claim and no litigation or claim of material importance is pending or threatened against the Company or any member of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents 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 17 March 2005:

- (a) the Memorandum and Bye-Laws of the Company;
- (b) the audited consolidated accounts of the Company for each of the two financial years ended 31 December 2002 and 2003 and the unaudited consolidated accounts of the Company for the six months ended 30 June 2004;
- (c) the circular of the Company dated 13 August 2004 issued pursuant to Chapter 14A of the Listing Rules since 31 December 2003, being the date to which the latest published audited consolidated accounts of the Company were made up;
- (d) the Agreement;
- (e) the Japan Software Agreement;
- (f) the letter from Tai Fook dated 28 February 2005, the text of which is set out on pages 15 to 25 of this circular; and
- (g) the letter of consent from Tai Fook referred to in the paragraph headed "Expert" above.

9. PROCEDURES TO DEMAND A POLL

The following is the procedure for demanding a poll by Shareholders in general meeting of the Company:

Bye-law 70 of the Bye-Laws of the Company sets out the procedure by which Shareholders may demand a poll:

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) 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 meeting; or
- (c) 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 meeting; or

- (d) 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 meeting being shares 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 conferring that right.

Unless a poll be so demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

10. MISCELLANEOUS

- (a) The company secretary of the Company is Ms Tang Yuk Bo, Yvonne, ACIS, ACS.
- (b) The qualified accountant of the Company is Mr Fung Man Yin, Sammy, BA (Hons), FCA, CPA (practising).

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 10:30 a.m. on 18 March 2005 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 resolutions which will be proposed as an ordinary resolution:

ORDINARY RESOLUTIONS

1. **“THAT:**

the Agreement dated 7 February 2005 and the transactions contemplated therein including the Disposal and the Loan Assignment (both such terms as defined in the circular of the Company dated 28 February 2005 of which the notice of this meeting forms part) be and are hereby approved, ratified and confirmed and any one director be and is hereby authorised to sign and execute such documents (and, if required, affix the common seal of the Company thereto) for and on behalf of the Company, in such final form and with such amendments as that director may deem appropriate, and to otherwise do all such things, as he may in his absolute discretion consider necessary or desirable to give effect to the Agreement and the transactions contemplated therein.”

2. **“THAT:**

- (a) the Japan Software Agreement (as defined in the circular of the Company dated 28 February 2005 of which the notice of this meeting forms part) dated 7 February 2005 and the transactions contemplated therein be and are hereby approved, ratified and confirmed;
- (b) the proposed Japan Annual Cap (as defined in the said circular of the Company dated 28 February 2005) for each of the three years ending 31 December 2005, 2006 and 2007 being US\$860,000 (equivalent to HK\$6,708,000), US\$1,000,000 (equivalent to HK\$7,800,000) and US\$1,350,000 (equivalent to HK\$10,530,000) respectively be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and to do all such acts or things as that director may in his absolute discretion deem appropriate to give effect to the Japan Software Agreement and the transactions contemplated therein.”

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

Hong Kong, 28 February 2005

* *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"), Peking University Founder Group Corporation, the controlling shareholder of the Company and its associates (as defined in the Listing Rules) are required to abstain from voting on all of the above resolutions.
- (5) The ordinary resolutions as set out above will be determined by way of a poll.