



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司*

(incorporated in Bermuda with limited liability)

DISCLOSEABLE AND CONNECTED TRANSACTION

On 4th April, 2002, the Company entered into the Disposal Agreement with Ricwinco. Pursuant to the Disposal Agreement, the Company has conditionally agreed to sell the entire issued share capital of Yung Wen and assign the Indebtedness to Ricwinco for a total consideration of HK\$15 million.

Under the Disposal Agreement, Ricwinco has conditionally agreed to procure the release of the Company from all existing corporate guarantees and undertakings it has given in respect of liabilities of the Yung Wen Group under the trade and banking facilities available to the Yung Wen Group on or before Completion save for liabilities owing by the Yung Wen Group to a trade creditor amounting to up to HK\$28.0 million under the Remaining Guarantee. To safeguard the Group, Ricwinco has also undertaken to procure the release of the Company from the Remaining Guarantee by no later than 31st March, 2003. As at 31st December, 2001, the aggregate liabilities of the Yung Wen Group guaranteed by the Company amounted to approximately HK\$58.0 million.

Ricwinco holds approximately 10.68% of the issued share capital of the Company and is a substantial shareholder, and thus a connected person (within the meaning of the Listing Rules), of the Company. Ricwinco is beneficially wholly-owned by Mr. Yung, a non-executive director of the Company. The Disposal constitutes a discloseable and connected transaction for the Company and the Remaining Guarantee constitutes a connected transaction for the Company under the Listing Rules. Consequently, the Disposal and the Remaining Guarantee are subject to approval from the independent shareholders of the Company. Mr. Yung, Ricwinco and their respective associates will abstain from voting in the special general meeting of the Company to be convened for approving the Disposal and the Remaining Guarantee.

A circular containing, among other things, particulars of the Disposal and the Remaining Guarantee, the recommendation from the independent board committee to the independent shareholders, the recommendation from the independent financial adviser, Kingston Corporate Finance Limited, to the independent board committee and a notice convening the special general meeting will be despatched to the shareholders as soon as practicable.

THE DISPOSAL AGREEMENT

Date

4th April, 2002

Parties

Vendor: the Company
Purchaser: Ricwinco

Assets to be sold/assigned

The entire issued share capital of Yung Wen and the Indebtedness.

The Yung Wen Group is principally engaged in the manufacture and sale of semi-conductor products. The Indebtedness was provided by the Group to the Yung Wen Group as a source of working capital. The Indebtedness amounted to approximately HK\$28.9 million as at the date of this announcement. It is expected that the Indebtedness will not exceed such balance prior to Completion.

Consideration of the Disposal

HK\$15.0 million which shall be payable by Ricwinco to the Company as to:

- HK\$12.5 million upon Completion; and
- HK\$2.5 million within 6 months after Completion.

Mr. Yung will, upon Completion, provide a personal guarantee in favour of the Company in respect of Ricwinco's obligation to make the HK\$2.5 million deferred payment.

The consideration was determined after arm's length negotiations between the parties, in particular, with reference to the net estimated realizable asset value of the Yung Wen Group calculated based on the valuations of the net realizable values of the major assets of the Yung Wen Group including its properties, plant and equipment and stocks (with an aggregate book value of approximately HK\$80 million as at 31st December, 2001), face value of the Indebtedness and the contingent liabilities of the Company under the existing corporate guarantees given by the Company in respect of certain liabilities of the Yung Wen Group as at 31st December, 2001. The aggregate net realizable values of such major assets of the Yung Wen Group as at 31st December, 2001 is approximately HK\$28 million based on the valuation by an independent valuer.

The Company intends to use the net proceeds from the Disposal of approximately HK\$13.5 million to fund the remaining businesses and operations of the Group, including its business in software solution and services and business in the manufacture and sale of electronic scales.

Release of corporate guarantees and undertakings

The Company currently provides corporate guarantees in respect of certain liabilities of the Yung Wen Group under the trade and banking facilities available to the Yung Wen Group. The amount of the liabilities of the Yung Wen Group guaranteed by the Company amounted to approximately HK\$58.0 million as at 31st December, 2001.

During the negotiations with Ricwinco regarding the Disposal, the Company requested Ricwinco to procure the release of all existing corporate guarantees and undertakings given by the Company in respect of the liabilities of the Yung Wen Group on or before Completion. However, the Company was informed by Ricwinco that it is not possible for Ricwinco to procure that all such corporate guarantees and undertakings be released in full on Completion.

Under the Disposal Agreement, Ricwinco has irrevocably undertaken to procure the release of the Company from the existing corporate guarantees and undertakings it has given in respect of the liabilities of the Yung Wen Group under the trade and banking facilities available to the Yung Wen Group on or before Completion save for the Remaining Guarantee in respect of the liabilities owing by the Yung Wen Group to a trade creditor amounting to up to HK\$28.0 million in form of a fixed term loan which is not repayable on or before 31st March, 2003.

Ricwinco has undertaken to procure:

- (i) repayment of the remaining guaranteed liabilities (that is the HK\$28.0 million fixed term loan as described above) in full on or before 31st March, 2003; or
- (ii) if the repayment referred to (i) above cannot be made in full by 31st March, 2003, the release and cancellation of the Remaining Guarantee on or before 31st March, 2003.

Ricwinco has also agreed to indemnify the Company in respect of any claims and/or liabilities which may be made against or suffered by the Company pursuant to the Remaining Guarantee.

Ricwinco has further irrevocably undertaken to the Company to procure that any payment (directly or indirectly) made by the Yung Wen Group (or any other third party at the instruction of any member of the Yung Wen Group or Ricwinco or any person or company related to any of them) to the trade creditor to whom the Company has issued the Remaining Guarantee (or any of its agents or representatives) will be applied towards the settlement of such guaranteed indebtedness first before being applied towards repayment of other outstanding sum due from any member of the Yung Wen Group to the trade creditor (or any of its agents or representatives) until full settlement of such guaranteed indebtedness or the release and cancellation of the Remaining Guarantee, whichever occurs first.

As a security for the indemnity provided by Ricwinco and the undertakings given by Ricwinco regarding the Remaining Guarantee, fixed charges will be created over 41,227,917 Shares currently held by Ricwinco and all the issued shares of Yung Wen to be held by Ricwinco upon Completion in favour of the Group. The charges will become enforceable if any of the undertakings or the indemnity given by Ricwinco has not been discharged by it.

Ricwinco has also irrevocably undertaken to the Company that if any part of the Remaining Guarantee is still not released after enforcing the charges in full and applying the proceeds from the sale of the charged assets to reduce the guaranteed liabilities, Ricwinco has to pay to the Company an amount equal to:

- (i) the remaining liabilities of the Yung Wen Group guaranteed by the Company, so as to enable the Company to apply such cash amount to settle all the relevant liabilities on behalf of the Yung Wen Group; or
- (ii) the liabilities suffered or incurred by the Company pursuant to the Remaining Guarantee, whichever is applicable.

Conditions

Completion is conditional upon the following conditions being fulfilled on or before 5:00 p.m. on 28th June, 2002 or such other date as the parties to the Disposal Agreement may otherwise agree:

1. obtaining approvals from the independent shareholders of the Company for the Disposal and the Remaining Guarantee; and
2. the making of arrangement for the release of the Company's liabilities and obligations under each of the aforesaid existing corporate guarantees and undertakings to the reasonable satisfaction of the Company.

Management Agreement

The Directors refer to the announcement of the Company dated 24th May, 2000. The Company entered into the Management Agreement on 17th May, 2000 with Ricwinco pursuant to which Ricwinco was appointed as manager of certain businesses of the Group including that of the Yung Wen Group for a period of three years commencing on 30th September, 2000. Pursuant to the Management Agreement, Ricwinco unconditionally guaranteed and undertook to the Company that the aggregate of the audited consolidated profit after taxation and minority interests of the Yung Wen Group and the MITC Group for each of the financial years/periods during the term of the Management Agreement would not be less than an amount equal to 6% of the aggregate of the "Opening Net Worth" of the Yung Wen Group (that is the audited net asset value of the Yung Wen Group as at 30th September, 2000 which is equal to approximately HK\$36.6 million) and the "Opening Net Worth" of the MITC Group (that is the audited net asset value of the MITC Group as at 30th September, 2000 which is equal to approximately HK\$67.7 million), subject to such adjustments as may be specified in the Management Agreement. If a loss is recorded by the Yung Wen Group and/or the MITC Group, the amount of such loss will form part of the profit shortfall. Ricwinco has to make a payment to the Company in an amount equal to the shortfall of the guaranteed profit but excluding any part of the shortfall represented by any net loss after tax and minority interests of the Yung Wen Group and to make a payment to Yung Wen in an amount equal to such net loss. Ricwinco has fulfilled its obligations under the profit guarantee for the year ended 31st December, 2000.

* For identification purposes only

Pursuant to the Management Agreement, the Company has conditionally agreed to sell and Ricwinco has conditionally agreed to purchase the Yung Wen Group. This possible disposal contemplated under the Management Agreement is conditional on, inter alia, Ricwinco having the financial resources to pay the consideration as stipulated in the Management Agreement. The Management Agreement specifies that Ricwinco will be deemed to have such financial resources if and only if:

- (i) the reserve share proceeds (being the sale proceeds of 33 million Shares beneficially owned by Ricwinco and placed in an escrow arrangement) (currently being HK\$0 because Ricwinco has not sold any of the Shares in the escrow arrangement) exceeds the amount of the "Opening Net Worth" of the Yung Wen Group; or
- (ii) an unconditional bona fide offer in writing has been received from a reputable investment bank or other institution (whether as agent or principal or underwriter) for the purchase of the Shares for the time being in the escrow arrangement (that is 33 million Shares) at a total consideration which when aggregated with the amount of the reserve share proceeds for the time being (if any) is equal to or exceeds the "Opening Net Worth" of the Yung Wen Group.

Such condition has not been satisfied and the Directors believe it is unlikely that such condition will be satisfied and therefore it is unlikely that the possible disposal on the forms contemplated in the Management Agreement would take place. Accordingly, to dispose of the Yung Wen Group, the Company has entered into the Disposal Agreement. Should the Disposal Agreement fail to be completed, the possible disposal under the Management Agreement will continue to be in effect.

As part and partial of the Disposal, the Disposal Agreement will release Ricwinco from its profit guarantee obligations in respect of the Yung Wen Group under the Management Agreement (including such obligation in relation to the year ended 31st December, 2001 and thereafter) immediately after Completion and such obligations will also be suspended pending Completion. Should the Disposal Agreement fail to be completed, the relevant provisions of the Management Agreement will continue in full force and effect.

The release and suspension of Ricwinco's profit guarantee obligation in respect of the Yung Wen Group will not prejudice Ricwinco's profit guarantee obligation in respect of the MITC Group under the Management Agreement.

Save as disclosed above, the provisions of the Management Agreement remain unchanged.

Reasons for the Disposal

The Group is principally focused in the provision of software solution and services.

The Yung Wen Group is principally engaged in the manufacture and sale of semi-conductor products. The audited consolidated net tangible assets of the Yung Wen Group was approximately HK\$36.6 million as at 31st December, 2000.

The audited consolidated net (loss)/profit before and after taxation for the Yung Wen Group for each of the two years ended 31st December, 2000 were as follows:

	For the year ended 31st December,	
	2000	1999
	HK\$'000	HK\$'000
Consolidated net (loss)/profit before taxation	(15,566)	1,823
after taxation	(15,566)	1,970

It is one of the strategies of the Group to move from the old economy manufacturing business to the information technology business. The business environment and prospect of the Yung Wen Group has been deteriorating during the past few years. As the business of the Yung Wen Group is not the main focus of the Company, the Directors consider that it will not be the interest of the Company to continue to invest in such non-core business. The Directors also consider that the Disposal will allow the Group to focus its resources in the development of its core technology business.

General

Ricwinco holds approximately 10.68% of the issued share capital of the Company and is a substantial shareholder, and thus a connected person (within the meaning of the Listing Rules), of the Company. Ricwinco is beneficially wholly-owned by Mr. Yung, a non-executive Director. The Disposal constitutes a discloseable and connected transaction for the Company and the Remaining Guarantee constitutes a connected transaction for the Company under the Listing Rules, approvals from the independent shareholders of the Company are required. Mr. Yung, Ricwinco and their respective associates will abstain from voting in the special general meeting of the Company to be convened for approving the Disposal and the Remaining Guarantee. The Directors, including the independent non-executive Directors, consider the Disposal, together with the transactions in connection therewith, is in the best interest of the Company and the terms of the Disposal Agreement to be fair and reasonable. A circular containing, among other things, particulars relating to the Disposal, the recommendation from the independent board committee to the independent shareholders, the recommendation from the independent financial adviser, Kingston Corporate Finance Limited, to the independent board committee and a notice convening the special general meeting will be despatched to the shareholders as soon as practicable.

Definitions

"associate(s)"	has the meaning as ascribed to it in the Listing Rules
"Company"	EC-Founder (Holdings) Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Disposal Agreement in accordance with its terms
"Disposal"	the disposal of the entire issued share capital of Yung Wen and the assignment of the Indebtedness to Ricwinco
"Disposal Agreement"	the conditional agreement made between the Company and Ricwinco dated 4th April, 2002 regarding, among other matters, the Disposal and the Remaining Guarantee
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries, other than the Yung Wen Group
"Indebtedness"	the indebtedness due from the Yung Wen Group to the Group as at Completion
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Management Agreement"	the management agreement entered into between the Company and Ricwinco dated 17th May, 2000 relating to, among other matters, the appointment of Ricwinco to manage the business of the Yung Wen Group for the Company
"MITC Group"	Management Investment & Technology Company Limited, a wholly-owned subsidiary of the Company and its subsidiaries
"Mr. Yung"	Mr. Richard Chih Shin Yung, a non-executive Director and the beneficial owner of Ricwinco
"Remaining Guarantee"	the corporate guarantee which the Company has agreed to provide in favour of a trade creditor of the Yung Wen Group subject to restructuring of the relevant liabilities from a revolving trading line to, among other facilities, a term loan
"Share(s)"	share(s) of HK\$0.10 each in the share capital of the Company
"Ricwinco"	Ricwinco Investment Limited, a company incorporated in Hong Kong with limited liability, which is beneficially wholly-owned by Mr. Yung
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Yung Wen"	Yung Wen Investment & Finance Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Yung Wen Group"	Yung Wen and its subsidiaries and an associated company
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board
EC-Founder (Holdings) Company Limited
Cheung Shuen Lung
Chairman

4th April, 2002

*Please also refer to the published version of this announcement in
Hong Kong iMail and Hong Kong Economic Times.*