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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold or transferred** all your shares in **Founder Holdings Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer 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.

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**FOUNDER HOLDINGS LIMITED**  
**方正控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

## DISCLOSEABLE AND CONNECTED TRANSACTIONS

**Financial adviser to EC-Founder (Holdings) Company Limited**

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

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

 **TAI FOOK** 大福融資有限公司  
TAI FOOK CAPITAL LIMITED

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A letter from the Board is set out on pages 5 to 12 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Founder Shareholders in relation to the Disposal Agreement and the Termination Agreement is set out on page 13 of this circular. A letter from Tai Fook containing its advice to the Independent Board Committee in relation to the Disposal Agreement and the Termination Agreement is set out on pages 14 to 24 of this circular.

A notice convening the SGM to be held on Thursday, 11 September 2003 at 11:00 a.m. at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 42 to 43 of this circular. Whether or not you are able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

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## DEFINITIONS

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

“Announcement”	the joint announcement of Founder and EC-Founder dated 1 August 2003 in respect of the Disposal Agreement and the Termination Agreement
“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	the Board of Directors
“Completion”	completion of the Disposal Agreement in accordance with its terms and conditions
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Director(s)”	director(s) of Founder
“Disposal”	the disposal of the entire issued share capital of MIT by EC-Founder
“Disposal Agreement”	the conditional agreement made between EC-Founder, HGL and Mr. Yung Jr. dated 1 August 2003 in connection with, among other things, the Disposal
“EC-Founder”	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
“EC-Founder Director(s)”	director(s) of EC-Founder
“EC-Founder Group”	EC-Founder and its subsidiaries
“EC-Founder Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of EC-Founder
“EC-Founder Shareholder(s)”	holder(s) of EC-Founder Share(s)
“Effective Date”	the date when the Termination Agreement becomes effective
“Existing Guarantees”	the guarantees provided by EC-Founder in favour of certain bankers of the MIT Group in relation to certain banking facilities granted to the MIT Group
“Facility A”	existing banking facilities to the maximum extent of HK\$5 million made available by a bank to MITC

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## DEFINITIONS

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“Founder”	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
“Founder Group”	Founder and its subsidiaries
“Founder Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of Founder
“Founder Shareholder(s)”	holder(s) of Founder Share(s)
“Guarantee A”	the existing guarantee provided by EC-Founder in respect of Facility A
“HGL”	Honour Glory Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 90% by Mr. Yung Jr.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee, comprising Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung (both are independent non-executive Directors), which has been established for the purpose of advising the Independent Founder Shareholders in respect of the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A)
“Independent Founder Shareholders”	the Founder Shareholders who are allowed to vote at the SGM in respect of the resolution regarding the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A) under the Listing Rules
“Latest Practicable Date”	21 August 2003, 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
“Management Agreement”	the management agreement entered into between EC-Founder and Ricwinco dated 17 May 2000 relating to, among other matters, the appointment of Ricwinco to manage the business of the MIT Group

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## DEFINITIONS

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“MIT”	MIT Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“MIT Group”	MIT and its subsidiaries
“MITC”	Management Investment & Technology Company Limited, a company incorporated in Hong Kong, the entire issued ordinary share capital of which is owned by MIT
“Mr. Yung”	Mr. Yung Chih Shin, Richard, an EC-Founder Director and the beneficial owner of Ricwinco
“Mr. Yung Jr.”	Mr. Yung Richard, Jr., an EC-Founder Director, who owns a 90% interest in HGL
“Ricwinco”	Ricwinco Investment Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by Mr. Yung
“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 Founder, to be held on Thursday, 11 September 2003 at 11:00 a.m. at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the approval of the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation under the transitional arrangement 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 advise the Independent Board Committee with respect to the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A)
“Termination Agreement”	the deed made between EC-Founder and Ricwinco dated 1 August 2003 in connection with the termination of the Management Agreement which will become effective upon Completion

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## DEFINITIONS

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“US\$”

United States dollars, the lawful currency of the United States of America

*Unless otherwise specified in this circular, US\$1.00 = HK\$7.8. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at such a rate or at any other rates or at all.*

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## LETTER FROM THE BOARD

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### FOUNDER HOLDINGS LIMITED 方正控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

*Executive Directors:*

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

*Registered Office:*

Cedar House  
41 Cedar Avenue  
Hamilton HM12  
Bermuda

*Independent non-executive Directors:*

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

25 August 2003

*To Founder Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

The Board refers to the Announcement dated 1 August 2003.

EC-Founder, an approximately 54.85% owned subsidiary of Founder, entered into the Disposal Agreement on 1 August 2003. Pursuant to the Disposal Agreement, EC-Founder has conditionally agreed to sell and HGL has conditionally agreed to purchase the entire issued share capital of MIT for a total consideration of HK\$45.5 million. As part of the Disposal, EC-Founder also entered into the Termination Agreement with Ricwinco on 1 August 2003. Pursuant to the Termination Agreement, the Management Agreement will be terminated upon Completion.

The Disposal and the possible continuing provision of Guarantee A under the Disposal Agreement, and the proposed termination of the Management Agreement under the Termination Agreement constitute connected transactions for Founder under the Listing Rules and are therefore subject to the approval of the Independent Founder Shareholders. The Disposal also constitutes a discloseable transaction for Founder under the Listing Rules.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with information on the Disposal Agreement and the Termination Agreement and seek your approval of the resolution set out in the notice of the SGM on pages 42 to 43 of this circular.

### THE DISPOSAL AGREEMENT

#### Date

1 August 2003

#### Parties

Vendor: EC-Founder, an approximately 54.85% owned subsidiary of Founder  
Purchaser: HGL, a company owned as to 90% by Mr. Yung Jr., an EC-Founder Director  
Guarantor: Mr. Yung Jr.

Mr. Yung Jr. as a director of Ricwinco is responsible for the management of the MIT Group and is a director of MITC, the principal operating company of the MIT Group. He has agreed to, among other things, (i) unconditionally and irrevocably guarantee to EC-Founder the due and punctual performance by HGL of all its obligations, commitments, undertakings, warranties and covenants under the Disposal Agreement and (ii) indemnify EC-Founder against all losses which EC-Founder may suffer through or arising from any breach by HGL of such obligations, commitments, undertakings, warranties or covenants.

#### Assets to be sold

HGL has conditionally agreed to purchase and EC-Founder has conditionally agreed to sell the entire issued share capital of MIT, being the holding company of the MIT Group.

The MIT Group is principally engaged in the design, manufacture and sale of electronic products, principally electronic weighing scales. The table below sets out the audited turnover, profit/(loss) before and after tax and minority interests of each of the Founder Group, the EC-Founder Group and the MIT Group for each of the two years ended 31 December 2001 and 2002:

	2002			2001		
	The Founder Group <sup>+</sup> <i>HK\$'000</i>	The EC-Founder Group <i>HK\$'000</i>	The MIT Group <i>HK\$'000</i>	The Founder Group <sup>+</sup> <i>HK\$'000</i>	The EC-Founder Group <i>HK\$'000</i>	The MIT Group <i>HK\$'000</i>
Turnover	1,442,015	311,933	192,825	1,669,883	331,455	169,762
Profit/(loss) before tax and minority interests	(278,463)	(84,271)	4,076	(391,751)	(69,279)	4,064 #
Profit/(loss) after tax and minority interests	(274,493)	(85,430)	4,076	(383,966)	(69,041)	4,064 #



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## LETTER FROM THE BOARD

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- # *before deducting a management fee of approximately HK\$4.1 million paid by the MIT Group to EC-Founder (no management fee was charged by EC-Founder to the MIT Group for the year ended 31 December 2002)*
  
- + *during the years ended 31 December 2001 and 2002, EC-Founder was an associated company of Founder and the results of the EC-Founder Group were included in the consolidated financial statements of Founder using the method of equity accounting*

### **Consideration of the Disposal**

The total consideration of the Disposal is HK\$45.5 million which shall be payable by HGL to EC-Founder (or as it may direct) in full upon Completion of which (i) an amount equal to the balance of the current account between EC-Founder and MITC, under which EC-Founder is indebted to the latter, (amounting to approximately HK\$2 million as at the Latest Practicable Date) outstanding at the date of Completion will be paid to MITC in cash to settle such current account in full and (ii) the remaining balance of the consideration (of approximately HK\$43.5 million assuming no change to the current balance of the current account) shall be paid to EC-Founder (or as it may direct) in cash.

The consideration was determined after arm's length negotiations between the parties, in particular, with reference to the historical track record of the MIT Group and an independent business valuation of the MIT Group as at 31 May 2003 of approximately HK\$44 million. The business valuation of the MIT Group was carried out by LCH (Asia-Pacific) Surveyors Limited, who has previous experience in valuing electronic consumer products manufacturers and is not connected with Founder, the directors, chief executive or substantial shareholders of Founder, its subsidiaries or their respective associates. The consideration of the Disposal represents (i) approximately 11.2 times the net profit of the MIT Group for the year ended 31 December 2002 and (ii) a premium of approximately 3.4% over the independent business valuation of the MIT Group. The Directors and the EC-Founder Directors consider that the terms of the Disposal Agreement, including the consideration of the Disposal, are fair and reasonable.

As at 31 December 2002, the audited net asset value of the MIT Group was approximately HK\$71.8 million. The consideration of the Disposal represents a discount of approximately 36.6% to the audited net asset value of the MIT Group as at 31 December 2002.

### **Existing Guarantees**

EC-Founder currently provides the Existing Guarantees in favour of certain bankers of the MIT Group in relation to the banking facilities granted by such bankers to the MIT Group. As at 31 December 2002, the amount of contingent liabilities of EC-Founder in respect of the Existing Guarantees amounted to approximately HK\$35 million.

As part of the terms of the Disposal Agreement, HGL has to use its best endeavours to procure that arrangements, to the reasonable satisfaction of EC-Founder, will be made with the relevant bankers of the MIT Group with a view to discharging EC-Founder from its obligations and liabilities under the Existing Guarantees (except for Guarantee A) in full upon Completion.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, a total amount of approximately US\$362,000 (equivalent to approximately HK\$2.8 million) of Facility A was utilized by MITC. EC-Founder has requested HGL and HGL has agreed to use its best endeavours to procure that, with effect on or before the date of Completion, the liabilities of MITC under Facility A shall have been reduced to zero and Facility A shall have been cancelled. If HGL fails to procure the reduction of the liabilities of MITC under Facility A to zero and the cancellation of Facility A on or before Completion, HGL is required to procure that the outstanding utilized amount of Facility A shall not exceed HK\$5 million as at the date of Completion and MITC should not further utilize Facility A following Completion.

HGL has agreed to indemnify and keep indemnified EC-Founder, notwithstanding Completion, from and against any losses or liabilities suffered by EC-Founder as a result of or in connection with Guarantee A and shall further use its best endeavours to procure that (i) all of the outstanding utilized amount of Facility A shall have expired, lapsed or released by not later than 6 months from the date of Completion and (ii) EC-Founder's obligations and liabilities under Guarantee A be fully released by not later than 6 months from the date of Completion or, if later, from the date on which all of outstanding utilized amount of Facility A as at the date of Completion shall have expired, lapsed or released.

In addition, HGL has agreed to procure that at Completion, cash collateral and/or securities listed on the Stock Exchange and reasonably acceptable to EC-Founder in an aggregate amount not less than the utilized amount of Facility A outstanding as at the date of Completion shall be deposited with an escrow agent. If EC-Founder suffers any losses or liabilities as a result of or in connection with Guarantee A and HGL and Mr. Yung Jr. fail to honour their respective indemnity and guarantee under the Disposal Agreement, EC-Founder shall have the rights to request the escrow agent to pay EC-Founder any cash collateral and/or to dispose of any securities collateral held by it and pay EC-Founder such cash proceeds in an aggregate amount sufficient to make good the losses or liabilities suffered by EC-Founder under Guarantee A.

### **Conditions**

Completion is conditional upon the following conditions being fulfilled:

1. approvals being obtained from the respective independent shareholders of Founder and EC-Founder for the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A); and
2. arrangements being effected as are necessary for the release of EC-Founder's liabilities and obligations under each of the Existing Guarantees (except for Guarantee A) upon or before Completion to the reasonable satisfaction of EC-Founder.

Completion shall take place within 10 business days after HGL has been notified by EC-Founder the fulfillment of condition 1 above (or such later day as the parties to the Disposal Agreement may agree, provided it is not later than 30 September 2003).

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## LETTER FROM THE BOARD

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### THE TERMINATION AGREEMENT

#### Background information on the Management Agreement

The Board refers to the joint announcement of Founder and EC-Founder dated 24 May 2000. EC-Founder entered into the Management Agreement on 17 May 2000 with Ricwinco, a company wholly-owned by Mr. Yung, the father of Mr. Yung Jr., pursuant to which Ricwinco was appointed as manager of certain businesses of the EC-Founder Group including that of the MIT Group for a period of three years commencing on 1 October 2000. Under the Management Agreement, Ricwinco has also guaranteed and undertaken, among other things, that for the period from 1 January 2003 to the date of expiry of the Management Agreement on 30 September 2003, the net profit after tax and minority interests of the MIT Group should not be less than approximately HK\$3 million.

#### Terms of the Termination Agreement

As part of the Disposal Agreement, EC-Founder entered into the Termination Agreement with Ricwinco on 1 August 2003.

Pursuant to the Termination Agreement, conditional upon Completion, the Management Agreement shall be terminated with effect from the date of Completion and each of EC-Founder and Ricwinco shall thereupon be deemed to have unconditionally and irrevocably waived, released and discharged each other from any continuing or outstanding obligations whatsoever in respect of the Management Agreement (including any liabilities of Ricwinco in respect of any profit guarantee provided under the Management Agreement) and to have unconditionally and irrevocably waived and released any accrued rights it may have arising out of any antecedent breach or breaches by any other party of its obligations thereunder.

Despite the termination of the Management Agreement, pursuant to the Termination Agreement, Ricwinco has agreed to undertake to indemnify EC-Founder against all losses, costs, expenses, damages and liabilities which EC-Founder and/or any company which, following the Effective Date, will be its subsidiary may incur whether before or after the Effective Date arising in connection with any event taken place prior to the Effective Date and which is directly or indirectly attributable to the business of the MIT Group, and which has arisen out of or in connection with any breach or default of Ricwinco under the terms of the Management Agreement or any gross negligence or misconduct on its part, whilst under the management of Ricwinco pursuant to the Management Agreement, provided that such indemnity of Ricwinco shall not apply to any claim made by EC-Founder when (i) such claim is made after 6 months from the Effective Date or (ii) the losses, costs, expenses, damages and liabilities incurred by EC-Founder and/or its relevant subsidiary have arisen as a result of fraud or gross negligence of EC-Founder or any omission of EC-Founder under the Management Agreement or (iii) any losses, costs, expenses, damages and liabilities incurred by EC-Founder and/or its relevant subsidiaries have arisen as a result of any act, conduct and/or omission by any parties beyond the control or duties of Ricwinco under the Management Agreement.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE DISPOSAL

The EC-Founder Group is principally engaged in (i) the provision of software solutions and services; (ii) the distribution of information products (a business which was acquired by EC-Founder earlier this year); and (iii) the design, manufacture and sale of electronic products (which is carried out by the MIT Group). Apart from the businesses carried out by the EC-Founder Group, the Founder Group is also principally engaged in software development and systems integration relating to the media industry and certain other industries.

Since 2000, the EC-Founder Group has been focusing on the development of information technology related businesses. Earlier this year, EC-Founder acquired an information product distribution business, which is complementary to the development of the business of the provision of software solutions and services of the EC-Founder Group. After such acquisition, more internal resources of the EC-Founder Group are expected to be devoted to the development of the EC-Founder's core information technology related businesses. Whilst the MIT Group generated certain profits for each of the years ended 31 December 2001 and 2002, the development of its business is relatively capital and working capital intensive. To support the business of the MIT Group, EC-Founder has provided the Existing Guarantees, under which it was exposed to total contingent liabilities of approximately HK\$35 million as at 31 December 2002.

Keen competition in the electronic product market has eroded the profitability of the MIT Group. The average net profit margin of the MIT Group decreased from approximately 2.4% for the year ended 31 December 2001 to approximately 2.1% for the year ended 31 December 2002. The management services and profit guarantee provided by Ricwinco in relation to the MIT Group under the Management Agreement will expire on 30 September 2003. After the expiry of the Management Agreement, EC-Founder will have to manage the operations of the MIT Group itself or appoint another manager to manage the MIT Group and will cease to enjoy the guaranteed return provided by Ricwinco under the Management Agreement. As it is the business strategy of the EC-Founder Group to focus on the development of its information technology related businesses, the EC-Founder Directors believe that the management of the business of the MIT Group by themselves or appointing another manager to manage the MIT Group after expiry of the Management Agreement will inevitably divert some of the EC-Founder Group's management and financial resources from the core business development areas to non-core areas which may not be in the interest of the EC-Founder Group.

EC-Founder intends to use the net proceeds from the Disposal (estimated to be approximately HK\$42.5 million) as general working capital of the EC-Founder Group. The net proceeds from the Disposal will enhance the working capital position of the EC-Founder Group and that of the Founder Group. Following Completion, the EC-Founder Group will have a clearly focused line of business relating to information technology, including the provision of software solutions and services and the distribution of information products, and therefore be able to deploy all its resources, including human and financial resources, in this field of business. For the year ended 31 December 2002, the provision of software solutions and services business recorded a total turnover of approximately HK\$70.8 million and the information product distribution business recorded a total turnover of approximately HK\$514.6 million. As the information product distribution business was acquired by EC-Founder from the Founder Group earlier this year, the results of such business were not reflected in the audited financial statements of the

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## LETTER FROM THE BOARD

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EC-Founder Group for the year ended 31 December 2002 but in those of the Founder Group. Founder Shareholders are advised to refer to the section headed “Financial effect of the Disposal” set out in the letter from Tai Fook for further analyses of the various financial effects of the Disposal on the EC-Founder Group and the Founder Group.

In view of the above reasons, in particular, the worsening business environment of the MIT Group, the impending expiry of the Management Agreement and the corresponding profit guarantee, the expected benefits which may be brought about by the Disposal (including more efficient allocation of resources, enhancement of working capital position of the EC-Founder Group and the release of the obligations and liabilities of EC-Founder under the Existing Guarantees), the Directors and the EC-Founder Directors (with the abstention of Mr. Yung and Mr. Yung Jr.) respectively believe that the Disposal (including the termination of the Management Agreement as part of the Disposal Agreement) is in the interests of the Founder Group and the Founder Shareholders as a whole, and of the EC-Founder Group and the EC-Founder Shareholders as a whole.

### **SGM**

The Disposal Agreement constitutes a discloseable transaction for Founder. Mr. Yung Jr. is an EC-Founder Director, and thus a connected person of Founder. HGL is owned as to 90% by Mr. Yung Jr. and therefore an associate of Mr. Yung Jr.. Accordingly, the transactions contemplated under the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) constitute connected transactions for Founder under the Listing Rules. Approval from the Independent Founder Shareholders is required.

Ricwinco is wholly-owned by Mr. Yung, an EC-Founder Director and a connected person of Founder and therefore an associate of Mr. Yung. Accordingly, the Termination Agreement constitutes a connected transaction for Founder and approval from the Independent Founder Shareholders is required.

SGM will be held on 11 September 2003 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at 11:00 a.m. for the purpose of considering, and if thought fit, approving the ordinary resolution regarding the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder (including the possible continuing provision of Guarantee A) by the Independent Founder Shareholders.

None of Mr. Yung, Mr. Yung Jr. or any of their respective associates holds any Founder Share. No Founder Shareholder is required to abstain from voting at the SGM.

Set out on pages 42 and 43 of this circular is a notice convening the SGM.

### **RECOMMENDATION**

The Independent Board Committee has been appointed by the Board to advise the Independent Founder Shareholders in respect of the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder. Tai Fook has been appointed as the independent financial adviser to the Independent Board Committee to opine as to the fairness and reasonableness of the terms and conditions of the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A), the Termination Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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The recommendation of the Independent Board Committee to the Independent Founder Shareholders in respect of the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder is set out on page 13 of this circular. A copy of the letter from Tai Fook to the Independent Board Committee containing its advice in relation to the Disposal Agreement, the Termination Agreement and the transactions contemplated thereunder is set out on pages 14 to 24 of this circular.

The Independent Board Committee, having taken into account the advice of Tai Fook, considers that the terms and conditions of the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement are fair and reasonable so far as the Independent Founder Shareholders are concerned and are in the interests of the Founder Group and the Independent Founder Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Founder Shareholders to vote in favour of the resolution relating to the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement to be proposed at the SGM.

Yours faithfully,  
For and on behalf of the Board  
**Cheung Shuen Lung**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**FOUNDER HOLDINGS LIMITED**  
**方正控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

25 August 2003

*To the Independent Founder Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

We refer to the circular of Founder dated 25 August 2003 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee by the Board to advise the Independent Founder Shareholders as to whether the terms and conditions of the Disposal Agreement and the Termination Agreement, details of which are contained in the text of the letter from the Board as set out in the Circular, are fair and reasonable so far as the interests of the Independent Founder Shareholders are concerned. Tai Fook has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

Having taken into consideration the advice from Tai Fook and in particular the principal factors and reasons set out in the letter from Tai Fook as set out on pages 14 to 24 of the Circular, we are of the view that the terms and conditions of the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement are fair and reasonable so far as the Independent Founder Shareholders are concerned and are in the interests of the Founder Group and the Independent Founder Shareholders as a whole. Accordingly, we recommend the Independent Founder Shareholders to vote in favour of the resolution relating to the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement to be proposed at the SGM.

Yours faithfully,

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

\* *For identification purpose only*

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## LETTER FROM TAI FOOK

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*The following is the text of a letter received from Tai Fook in respect of the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement, prepared for the purpose of incorporation in this circular:*



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

25 August 2003

*To the Independent Board Committee*  
Founder Holdings Limited  
Unit 1408, 14th Floor  
Cable TV Tower  
9 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in relation to the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement, details of which are contained in the circular dated 25 August 2003 (the "Circular") issued by Founder to the Founder 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.

EC-Founder is a subsidiary of Founder and the Disposal Agreement constitutes a discloseable transaction for Founder under the Listing Rules. Mr. Yung Jr. is an EC-Founder Director, and thus a connected person of EC-Founder. HGL is owned as to 90% by Mr. Yung Jr. and therefore an associate of Mr. Yung Jr.. Accordingly, the transactions contemplated under the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) constitute connected transactions for Founder under the Listing Rules. Approval from the Independent Founder Shareholders is required.

Ricwinco is wholly-owned by Mr. Yung, an EC-Founder Director and a connected person of EC-Founder and a connected person of Founder and therefore an associate of Mr. Yung. Accordingly, the Termination Agreement constitutes a connected transaction for Founder under the Listing Rules and approval from the Independent Founder Shareholders is required.

None of Mr. Yung, Mr. Yung Jr. or any of their respective associates holds any Founder Share. No Founder Shareholder is required to abstain from voting at the SGM.



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## LETTER FROM TAI FOOK

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In formulating our opinion, we have relied on the information and facts supplied to us by the management and directors of EC-Founder and Founder 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 EC-Founder and Founder 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 EC-Founder, Founder or any of its subsidiaries and associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the terms and conditions of the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement, we have considered the following principal factors and reasons:

#### **1. The Disposal**

##### 1.1 Background of and reasons for the Disposal

The EC-Founder Group is principally engaged in (i) the provision of software solutions and services; (ii) the distribution of information products (the “IT Distribution Business”) (together, the “IT Businesses”); and (iii) the design, manufacture and sale of electronic products (the “Electronic Business”). Apart from the businesses carried out by the EC-Founder Group, the Founder Group is also principally engaged in software development and systems integration relating to the media industry and certain other industries.

##### *Business strategy of the Founder Group (excluding the EC-Founder Group)*

As set out in the circular of Founder dated 30 April 2003, the strength of the Founder Group’s business lies in software development and systems integration for media business and non-media business. Other than being one of the market leaders for the Chinese digital publishing systems, according to the annual report of Founder for the year ended 31 December 2002, Founder has also established a leading position in the Chinese broadcasting control system, news production management system and digital storage and search system for television stations in the PRC.

As advised by the Directors, leveraging on the expertise of its management and the technical support from its research and development team, it has always been the strategy of the Founder Group to pursue in the focus line of business in relation to information technology and it would be beneficial for Founder if its group companies can follow this strategy so that resources can be efficiently allocated to areas where the strengths and expertise of the Founder Group lie.

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## LETTER FROM TAI FOOK

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### *Business strategy of the EC-Founder Group*

As set out in the letter from the Board in the Circular, since 2000, the EC-Founder Group has been focusing on the development of the IT Businesses. This business strategy was reaffirmed in the annual report of EC-Founder for the year ended 31 December 2002 which stated that the EC-Founder Group will continue to focus and utilise its resources to further develop the core IT Businesses. Moreover, the IT Businesses have become an increasingly important revenue contributor to the EC-Founder Group.

In early July 2003, EC-Founder completed the acquisition (the “Acquisition”) of the IT Distribution Business, which is complementary to the development of the provision of software solutions and services business of the EC-Founder Group. As set out in the circular of EC-Founder dated 30 April 2003, the IT Distribution Business was ranked 11th out of the top 100 enterprises in terms of total revenue of its distribution business in the PRC and the EC-Founder Directors are of the view that, leveraging on the synergies derived from the Acquisition and cope with the existing software solutions and services, the EC-Founder Group is well positioned to capture the considerable development potential in the information technology industry in the PRC.

In addition, the EC-Founder Directors have confirmed that more internal resources of the EC-Founder Group will be devoted to the development of the core IT Businesses after the Acquisition.

### *Prospects of the MIT Group*

The Electronic Business is carried out by the MIT Group. For each of the two years ended 31 December 2002, as set out in the letter from the Board in the Circular, the MIT Group generated net profit of approximately HK\$4.1 million (before deducting a management fee of approximately HK\$4.1 million paid by the MIT Group to EC-Founder) and approximately HK\$4.1 million respectively.

Although the MIT Group has been making profits during the past two years, keen competition in the electronic product market has eroded the profitability of the MIT Group. During the corresponding period, the net profit margin of the MIT Group has decreased from approximately 2.4% to approximately 2.1%. To support the business of the MIT Group, EC-Founder has provided the Existing Guarantees, under which it was exposed to total contingent liabilities of approximately HK\$35 million as at 31 December 2002. Given the fact that the development of the Electronic Business used to be relatively capital and working capital intensive and the electronic product market will remain competitive in the near future which exerts substantial price pressure on the Electronic Business, the EC-Founder Directors consider that the development potential of the MIT Group is and will continue to be limited. Therefore, the EC-Founder Group may not be justified to allocate further resources to this non-core business.

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## LETTER FROM TAI FOOK

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### *Release of Existing Guarantees*

As stated above, the development of the business of the MIT Group is relatively capital and working capital intensive. As part of the Disposal Agreement, the Disposal would enable EC-Founder to be released from the Existing Guarantees (except for Guarantee A which will be released not later than six months after Completion) in full upon Completion. As advised by the EC-Founder Directors, with the release of the Existing Guarantees, EC-Founder can allocate additional financial resources to support the core IT Businesses.

### *Expiry of the Management Agreement*

The management services and profit guarantee provided by Ricwinco in relation to the MIT Group under the Management Agreement will expire imminently on 30 September 2003. Pursuant to the Management Agreement, Ricwinco has guaranteed and undertaken, among other things, that for the period from 1 January 2003 to the date of expiry of the Management Agreement on 30 September 2003, the net profit after tax and minority interests of the MIT Group should not be less than approximately HK\$3 million. After the expiry of the Management Agreement, EC-Founder will have to manage the operations of the MIT Group itself or appoint another manager to manage the MIT Group and will cease to enjoy the guaranteed return provided by Ricwinco under the Management Agreement. As it is the business strategy of the EC-Founder Group to focus on the development of the IT Businesses, the EC-Founder Directors believe that the management of the business of the MIT Group by themselves or appointing another manager to manage the MIT Group after expiry of the Management Agreement will inevitably divert the management and financial resources from the core business development areas to non-core areas which may not be in the interest of the EC-Founder Group. Therefore, it would be in the best interest of the EC-Founder Group to dispose of the MIT Group prior to the expiry of the Management Agreement.

### *Proceeds from the Disposal*

As set out in the letter from the Board in the Circular, EC-Founder intends to use the net proceeds from the Disposal (estimated to be approximately HK\$42.5 million) as general working capital of the EC-Founder Group. The net proceeds from the Disposal will enhance the working capital position of the EC-Founder Group. As advised by the EC-Founder Directors, after Completion, the EC-Founder Group will have a clearly focused line of business relating to information technology and therefore be able to deploy all its resources, including human and financial resources in the IT Businesses.

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## LETTER FROM TAI FOOK

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### *Conclusion*

In view of the following: 1) it has always been the strategy of the Founder Group to pursue in the focus line of business in relation to information technology; 2) it has been the strategy of the EC-Founder Group to focus on the IT Businesses; 3) the limited development potential of the MIT Group; 4) the release of the Existing Guarantees (except for Guarantee A which will be released not later than six months after Completion) in full upon Completion; 5) the impending expiry of the Management Agreement and the corresponding profit guarantee; and 6) the availability of funds from the Disposal for the development of EC-Founder's focused line of business, the EC-Founder Directors, the Directors and we are of the view that the Disposal represents a good opportunity for the EC-Founder Group to divest of the Electronic Business and is in line with the business strategy of the EC-Founder Group and the Founder Group.

### 1.2 Basis of consideration

The total consideration (the "Consideration") of the Disposal is HK\$45.5 million. The Consideration was determined after arm's length negotiations between HGL and EC-Founder, in particular, with reference to the historical track record of the MIT Group and an independent business valuation of the MIT Group as at 31 May 2003 of approximately HK\$44.0 million. As at 31 December 2002, the audited net asset value of the MIT Group was approximately HK\$71.8 million. The Consideration represents 1) a price-to-earnings ratio of approximately 11.2 times of the MIT Group for the year ended 31 December 2002; 2) a premium of approximately 3.4% over the independent business valuation of the MIT Group as at 31 May 2003; and 3) a discount of approximately 36.6% to the audited net asset value of the MIT Group as at 31 December 2002 or a price-to-book ratio of approximately 0.63 time of the MIT Group as at 31 December 2002.

### *Ratios comparison*

The MIT Group is principally engaged in the design, manufacture and distribution of electronic products, particularly electronic weighing scales. As there is no company listed on the Stock Exchange principally engaged in the production of electronic weighing scales, a direct ratios comparison with the business of the MIT Group is not possible. However, we have in turn selected six companies listed on the main board of the Stock Exchange which are principally engaged in the manufacturing of consumer electronic products and have recorded net profits in their latest audited financial statements as the comparable companies (the "Comparable Companies"). We consider the price-to-earnings ratios and price-to-book ratios of the Comparable Companies relevant for the purposes of ascertaining and indicating whether the Consideration is generally in line with the market.

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## LETTER FROM TAI FOOK

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We set out below the price-to-earnings ratios and price-to-book ratios of the Comparable Companies:

Name of Comparable Companies	Description of principal business	Date of latest financial statements	Closing price as at the Latest Practicable Date <i>HK\$</i>	Price/ earnings ratio	Price/ book ratio
Skyworth Digital Holdings Limited	Designs, manufactures and sells color televisions and audio visual products	31 March 2003	1.10	10.8	1.00
Orient Power Holdings Limited	Develops, manufactures and markets audio, in-car electronic and digital video disc products	31 December 2002	0.92	7.4	0.72
Tonic Industries Holdings Limited	Designs, manufactures and markets consumer audio, video products and home appliance products	31 March 2003	0.57	8.3	0.89
Daiwa Associate Holdings Limited	Designs, develops, manufactures and distributes electronic components and consumer electronics	31 March 2003	0.57	7.3	0.33
Allan International Holdings Limited	Designs, manufactures and sells household electrical appliances and personal care products	31 March 2003	1.39	8.1	1.09
Sunway International Holdings Limited	Designs, develops, manufactures and sells electronic and related components and parts and consumer electronic products	30 September 2002	0.39	13.0	0.46
<b>Average</b>				<b>9.1</b>	<b>0.75</b>
<b>The MIT Group</b>				<b>11.2</b>	<b>0.63</b>

*Source: Bloomberg*

We note that the products manufactured and sold by the Comparable Companies may not be exactly identical to those of the MIT Group, but all of the Comparable Companies are principally engaged in the manufacture and sale of consumer electronic products and we consider the Comparable Companies relevant and would reflect the market's collective valuation for the similar nature of business engaged by the MIT Group.

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## LETTER FROM TAI FOOK

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As illustrated in the table above, the average price-to-earnings ratio and the average price-to-book ratio of the Comparable Companies are approximately 9.1 times and 0.75 time respectively. Accordingly, since 1) the price-to-earnings ratio and the price-to-book ratio (11.2 times and 0.63 time respectively) of the MIT Group are within the range of those of the Comparable Companies; 2) the price-to-earnings ratio of the MIT Group represents a premium of approximately 23.1% to the average price-to-earnings ratio of the Comparable Companies which is favourable to the EC-Founder Group; and 3) although the price-to-book ratio of the MIT Group represents a discount of approximately 16.0% to the average price-to-book ratio of the Comparable Companies, whereas five out of the six Comparable Companies are traded at prices lower than or equal to their respective book value with an average price-to-book ratio of approximately 0.68 time, which is in line with the price-to-book ratio of the MIT Group, we consider the Consideration fair and reasonable.

### *Independent business valuation*

The independent business valuation of the MIT Group as at 31 May 2003 was carried out by LCH (Asia-Pacific) Surveyors Limited (“LCH”). We have reviewed and discussed with LCH as to the methodology and the bases and assumptions adopted in arriving at the valuation of the fair market value of the MIT Group. We noted that in the process of valuation, LCH has chosen the asset-based approach in determining the business enterprise value of the MIT Group with the market approach to evaluate whether such value was sustainable from an adversary perspective. The reasons for choosing the asset-based approach are set out in Appendix I to the Circular. We were also advised by LCH that it has taken into consideration all pertinent factors affecting the operation of the business of the MIT Group with the particular usage of its existing assets, details of which are set out in the paragraph headed “The basis of valuation” in Appendix I to the Circular. As set out in Appendix I to the Circular, the valuation was carried out on basis of fair market value in continued use and as a going-concern business through the application of the asset accumulation method.

Having considered the above, we are of the view that the above methodology used in obtaining the value of the MIT Group is appropriate and the principal bases and assumptions used in arriving at the fair market value of the MIT Group have been made with due care and objectivity. As such, we are of the view that the basis of the valuation, the approach to value and the valuation methodology adopted by LCH for determining the fair market value of the MIT Group are fair and reasonable.

### *Conclusion*

Taking into consideration 1) the price-to-earnings ratio of the MIT Group represents a premium of approximately 23.1% to the average price-to-earnings ratio of the Comparable Companies; 2) the Consideration represents a premium of about 3.4% over the independent business valuation of the MIT Group; and 3) the release of the Existing Guarantees (except for Guarantee A which will be released not later than six months after Completion) in full upon Completion, despite the Consideration represents a discount of approximately 16.0% to the average price-to-book ratio of the Comparable Companies, we are of the view that the Consideration is fair and reasonable so far as the independent shareholders of EC-Founder and the Independent Founder Shareholders as a whole are concerned.

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## LETTER FROM TAI FOOK

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### 1.3 Financial effects of the Disposal

#### *Net asset value*

According to the circular of EC-Founder dated 30 April 2003, the unaudited adjusted net tangible asset value per EC-Founder Share was approximately HK\$0.180. Assuming the Disposal had been completed and the Consideration had been paid in full, based on 1,100,562,040 EC-Founder Shares in issue, the unaudited adjusted net tangible asset value per EC-Founder Share would decrease by 13.3% to approximately HK\$0.156.

As stated in the annual report of Founder for the year ended 31 December 2002, the net tangible asset value of the Founder Group as at 31 December 2002 was approximately HK\$324.4 million. Since EC-Founder is owned as to approximately 54.85% by Founder, the net tangible asset value of the Founder Group will decrease by approximately HK\$14.4 million upon Completion.

The decline in the net tangible asset value of the Founder Group after Completion is due to the discount of the Consideration to the audited net asset value of the MIT Group as at 31 December 2002. As mentioned in the section headed "Background of and reasons for the Disposal" above, the EC-Founder Directors consider that since the prospect of the MIT Group is limited and the profit guarantee provided by Ricwinco will expire imminently on 30 September 2003, the substantial amount of the net proceeds arising from the Disposal will enable EC-Founder to devote further resources to focus on the development of the IT Businesses which are of considerable potential. As such, we are of the view that the slight decline in the net tangible asset value of the Founder Group is fair and reasonable.

#### *Earnings*

For the year ended 31 December 2002, the MIT Group recorded audited profit of approximately HK\$4.1 million. Assuming the Disposal and the Acquisition had been taken place on 1 January 2002 and having not taking into account the accounting loss that may be recorded as a result of the Disposal, the adjusted net loss per EC-Founder Share would increase by approximately 3.9% from approximately HK\$0.096 to approximately HK\$0.100 for the year ended 31 December 2002.

In relation to the above, the adjusted net loss of the Founder Group for the year ended 31 December 2002 will increase by approximately HK\$2.2 million. We consider such a slight increase in the adjusted net loss immaterial to the financial performance of the Founder Group.

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## LETTER FROM TAI FOOK

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### *Working capital*

The net proceeds from the Disposal will generate net cash inflow of approximately HK\$42.5 million to the EC-Founder Group as well as reduce unnecessary funding requirement of the EC-Founder Group in non-core businesses. Upon Completion, deducting the cash and cash equivalents of approximately HK\$7.9 million held by the MIT Group as at 31 December 2002, the cash and cash equivalents of the EC-Founder Group will increase by approximately HK\$34.6 million. As advised by the EC-Founder Directors, EC-Founder intends to use the net proceeds from the Disposal as general working capital of the EC-Founder Group.

The cash inflow generated from the Disposal will also increase the cash and cash equivalents of the Founder Group by approximately HK\$19.0 million upon Completion, which is favourable to the Founder Group.

### *Gearing and contingent liability positions*

According to the circular of EC-Founder dated 30 April 2003, the adjusted gearing ratio (representing long-term debt to equity) of the EC-Founder Group was approximately 0.29%. Following Completion, the gearing ratio of the EC-Founder Group would reduce to zero as all the long-term debt of the EC-Founder Group was contributed by the MIT Group.

We are of the view that the enhancement in the gearing ratio of the EC-Founder Group is insignificant to the financial position of the Founder Group.

To support the business of the MIT Group, EC-Founder was exposed to total contingent liabilities of approximately HK\$35 million as at 31 December 2002. With the release of the Existing Guarantees (except for Guarantee A which will be released not later than six months after Completion), the contingent liabilities of EC-Founder will reduce to at most HK\$5 million upon Completion and further reduce to zero when Guarantee A is released within six months after Completion.

The reduction of contingent liabilities in EC-Founder will not have any effect on the financial position of the Founder Group.

### *Conclusion*

As set out in the circular of EC-Founder dated 30 April 2003, after the Acquisition, the IT Distribution Business will immediately broaden the income stream of the EC-Founder Group and the EC-Founder Group is well positioned in the market to capture the considerable development potential in the PRC information technology industry. According to the EC-Founder Directors, after the Disposal, EC-Founder will be able to utilise its entire resources, including the proceeds from the Disposal and the additional financial resources from the release of the Existing Guarantees, to develop the IT Businesses.



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## LETTER FROM TAI FOOK

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Taken into account the enhancement in working capital position of the Founder Group upon Completion, despite the slight decrease in the net tangible asset value and the slight increase in the adjusted net loss for the Founder Group, we are of the view that the Disposal is in the interests of the Founder Group and the Independent Founder Shareholders as a whole.

### **2. Possible continuing provision of Guarantee A**

As at the Latest Practicable Date, a total amount of approximately US\$362,000 (equivalent to approximately HK\$2.8 million) of Facility A was utilised by MITC. EC-Founder has requested HGL and HGL has agreed to use its best endeavours to procure that, with effect on or before the date of Completion, the liabilities of MITC under Facility A shall have been reduced to zero and the Facility A shall have been cancelled. If HGL fails to procure the reduction of the liabilities of MITC under Facility A to zero and the cancellation of Facility A on or before Completion, HGL is required to procure that the outstanding utilised amount of Facility A shall not exceed HK\$5 million as at the date of Completion and MITC should not further utilise Facility A following Completion.

HGL has agreed to provide certain undertakings and indemnities in relation to the possible continuing provision of Guarantee A which will constitute connected transaction for EC-Founder and Founder under the Listing Rules. In particular, HGL has agreed to procure that at Completion, cash collateral and/or securities listed on the Stock Exchange and reasonably acceptable to EC-Founder in an aggregate amount not less than the utilised amount of Facility A outstanding as at the date of Completion shall be deposited with an escrow agent. If EC-Founder suffers any loss or liability as a result of or in connection with Guarantee A and HGL and Mr. Yung Jr. fail to honour their respective indemnity and guarantee under the Disposal Agreement, EC-Founder shall have the rights to request the escrow agent to pay EC-Founder any cash collateral and/or to dispose of any securities collateral held by it and pay EC-Founder such cash proceeds in an aggregate amount sufficient to make good the loss or liability suffered by EC-Founder under Guarantee A.

Although Guarantee A may not be released until 6 months from the date of Completion, given the financial risk of EC-Founder will be minimal due to 1) the maximum extent of Facility A is only HK\$5 million, which represents a small amount as compared to the financial resources of the EC-Founder Group; and 2) the undertakings and indemnities given by HGL, in particular the collateral to be procured by HGL, we are of the view that the terms and conditions in relation to the possible continuing provision of Guarantee A as part of the Disposal Agreement are fair and reasonable to the EC-Founder Group and the independent shareholders of EC-Founder as well as to the Founder Group and the Independent Founder Shareholders.

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## LETTER FROM TAI FOOK

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### 3. The Termination Agreement

As part of the Disposal Agreement, EC-Founder entered into the Termination Agreement with Ricwinco. Pursuant to the Termination Agreement, conditional upon Completion, the Management Agreement shall be terminated with effect from the date of Completion and each of EC-Founder and Ricwinco shall therefore be deemed to have unconditionally and irrevocably waived, released and discharged each other from any continuing or outstanding obligations whatsoever in respect of the Management Agreement (including any liabilities of Ricwinco in respect of any profit guarantee provided under the Management Agreement). Details of the Termination Agreement are set out in the letter from the Board in the Circular.

The Termination Agreement was entered into on 1 August 2003, approximately 60 days from the expiry of the Management Agreement. Since the expiry of the Management Agreement is imminent, as advised by the EC-Founder Directors, the principle purpose of entering into the Termination Agreement was to facilitate the Disposal. As stated in the section headed “Background of and reasons for the Disposal” above, the EC-Founder Directors believe that it would be in the best interest of the EC-Founder Group to dispose of the MIT Group prior to the expiry of the Management Agreement.

In light of 1) the Management Agreement and the profit guarantee relating thereto will expire very soon; and 2) the reasons for the Disposal as mentioned in the section headed “Background of and reasons for the Disposal” above, we are of the view that the terms and conditions of the Termination Agreement, as part of the Disposal, are fair and reasonable.

### RECOMMENDATION

Having taken the above principal factors and reasons into account, we consider the terms and conditions of the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement are fair and reasonable so far as the Independent Founder Shareholders are concerned and are in the interests of the Founder Group and the Independent Founder Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Founder Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Disposal Agreement (including the Disposal and the possible continuing provision of Guarantee A) and the Termination Agreement.

Yours faithfully,  
For and on behalf of  
**Tai Fook Capital Limited**  
**Derek C. O. Chan**  
*Deputy Managing Director*

*The following is the text of a valuation letter prepared for the purpose of inclusion in this circular, received from LCH (Asia-Pacific) Surveyors Limited, an independent valuer, in connection with the valuation of the equity value of the MIT Group as at 31 May 2003:*



利駿行測量師有限公司  
**LCH (Asia-Pacific)** Surveyors Limited  
 CHARTERED SURVEYORS  
 PLANT AND MACHINERY VALUERS  
 BUSINESS & FINANCIAL SERVICES VALUERS

ESTATE AGENT'S LICENCE  
 (COMPANY) NO. C-009053

27th Floor  
 Li Dong Building  
 9 Li Yuen Street East  
 Central  
 Hong Kong

25 August 2003

The Directors  
 EC-Founder (Holdings) Company Limited  
 Unit 1408, 14th Floor  
 Cable TV Tower  
 9 Hoi Shing Road  
 Tsuen Wan, New Territories  
 Hong Kong

Dear Sirs,

In accordance with the recent instructions given by the management of EC-Founder (Holdings) Company Limited (hereinafter referred to as “EC-Founder”) to LCH (Asia-Pacific) Surveyors Limited (hereinafter referred to as “LCH” or “we”), we have investigated and analysed the business enterprise value of MIT Holdings Limited (hereinafter referred to as “MIT” or the “subject business enterprise”) as at 31 May 2003 (hereinafter referred to as the “effective date of the appraisal”) for possible merger and acquisition purposes.

At the request of the management of EC-Founder, we prepared this letter to summarise our findings and conclusion for the purpose of inclusion in a public document at today’s date. This letter forms part of our detailed appraisal report dated 23 July 2003, and the assumptions, caveats and limiting conditions adopted by our appraisal report are also applied to this letter. Terms used in this letter should have the same meanings as defined in the circular of Founder Holdings Limited (hereinafter referred to as “Founder”) dated 25 August 2003 unless otherwise defines.

## INTRODUCTION

Business enterprise value is defined as the total value of a business. It comprises of monetary assets (net working capital), tangible assets and intangible assets, thereby encompassing all assets of a business enterprise (*see Note*). In other words, the business enterprise value is also equal to the value of its invested capital – common equity, preferred stocks and long-term debts. However, there is no universal definition of the term; rather, it is a usual practice for a professional appraiser, based on his professional knowledge and experience, to identify the definition intended in its use.

*Note:* A business enterprise is defined as a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

In this appraisal, we were instructed to analyse the value of the subject business enterprise and to express an independent opinion of the fair market value of the entire equity interest of the subject business enterprise as at the effective date of the appraisal. Based on our instructions, we define the term *business enterprise value* in our appraisal as the fair market value of the entire equity interest.

The term “Fair Market Value” as used herein is defined as the price, expressed in terms of cash equivalents, at which asset would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s-length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. This definition has been made on the assumption that both the buyer and the seller contemplate the retention of the subject business enterprise at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at an arm’s-length transaction.

## DESCRIPTION OF THE SUBJECT BUSINESS ENTERPRISE

We understand that MIT is an investment holding company incorporated in the British Virgin Islands on 14 June 2000 and is wholly owned by EC-Founder. MIT directly and indirectly wholly owns Management Investment & Technology Company Limited, Meditech Holdings Limited and Meditech Limited (hereinafter together with MIT referred to as “MIT Group”).

*Management Investment & Technology Company Limited* (hereinafter referred to as “MITC”) was incorporated in Hong Kong on 9 September 1975 and its entire issued ordinary share capital is owned by MIT. The primary business of MITC is to manufacture and distribute its self-designed electronic weighing scales to the consumer market, both locally and overseas. We were given to understand that the business of the MIT Group is mainly being carried out by MITC.

The principal economic asset of MITC is its operation of an electronic consumer products factory (hereinafter referred to as the “factory” or “MITC’s factory”) and its self-designed electronic weighing scales and other OEM (Original Equipment Manufacturer) electronic products such as lightings, step-down power supplies, high voltage electronic power supplies and electronic medical products. MITC has obtained an ISO9001 certificate. The factory is located at Xiao Bian Industrial Estate, Changan, Dongguan of Guangdong Province, the People’s Republic of China (hereinafter referred to as the “PRC” or “China”). It at present has a workforce of approximately 1,400. Apart from the factory, MITC also owns an office and a warehouse in Tin Fung Industrial Mansion, Aberdeen of Hong Kong.

*Meditech Holdings Limited* is an investment holding company incorporated in the British Virgin Islands on 2 June 1999 and is wholly owned by MITC. The principal economic asset of Meditech Holdings Limited is its ownership of the entire equity interest of Meditech Limited, a company established in Hong Kong on 9 June 1999. We were given to understand that *Meditech Limited* is a dormant company and has not conducted any business since its incorporation.

**VALUATION PROCEDURES ADOPTED**

In performing the appraisal of the subject business enterprise, we have adopted the following procedures which were agreed with the management of EC-Founder before the engagement. They are:

- to prepare and submit a list(s) of required documents and information regarding the operation of each business enterprise of the MIT Group, in particular MITC during the course of valuation;
- to read the supplied materials and based on the content of the materials such as product information, market condition, financial information and the scale of each business enterprise of the MIT Group to arrive at our opinion;
- to conduct a limited scope on-site inspection and to gather relevant information regarding the type of business, its operation and the assets of each business enterprise of the MIT Group;
- to hold discussions with relevant business enterprise's personnel and to review various accounting and financial documents in order to understand the scope of their assets;
- to obtain the latest available asset schedule and management account of each business enterprise of the MIT Group on which to start the valuation;
- to identify off-balance sheet assets that should be recognised and valued;
- to conduct appropriate research in order to obtain necessary industry and market information to support our opinion of value. The extent of research is at the discretion of LCH;
- to value all identified tangible and intangible assets (if any) to be included in the adjusted balance sheet using the respective standards of value that are most appropriate;
- to construct a valuation based balance sheet to include the current assets (as provided by the management of MIT) that reflects the appropriate standards of value; and
- to document our findings and conclusion in our appraisal report.

**THE BASIS OF VALUATION**

The subject business enterprise is valued on the basis of "Fair Market Value" in continued use and as a going-concern business. The continued use premises assumes that the subject business enterprise will be used for the purpose for which the subject business enterprise was conceived or is currently used. Implicit in this definition is the fact that a hypothetical willing and able buyer would not pay more to acquire the subject business enterprise than he could reasonably expect to earn in the future from an investment in the subject business enterprise.

The valuation of the subject business enterprise has taken account of all pertinent factors affecting the operation of its business with the particular usage of its existing production assets i.e. the factory and its ability to generate future investment returns. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the business of each business enterprise of the MIT Group, in particular MITC;
- the present worth of the assets of each business enterprise of the MIT Group;
- the past and projected future economic benefits of each business enterprise of the MIT Group based on the assumptions made by the management of MIT;
- the economic and industry data affecting the operation of each business enterprise of the MIT Group;
- the market-derived investment returns of similar businesses; and
- the risks facing each business enterprise of the MIT Group.

## **APPROACHES TO VALUE**

In the process of valuation, we have considered the three generally accepted business enterprise appraisal approaches to value, namely the Market Approach, the Income Approach and the Asset-based Approach.

### **The Market Approach**

The Market Approach is basically a comparison method to value a business enterprise by comparison to the prices at which other similar business nature companies or interests changed hands in arm's-length transactions. By using this approach, the appraiser will first look for valuation indication from the prices of other similar companies or equity interests in companies that have sold. The right transactions used in analysing for valuation indication need to be sales on an arm's-length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell. Then, based on those transactions to derive multiples (financial ratios) to apply to the fundamental financial variables of the appraised business enterprise and to arrive at an indicative value of the appraised business enterprise. The most commonly used multiples are price-to-earnings, price-to-revenues and price-to-book multiple.

To the best of our knowledge, apart from EC-Founder, we are not aware of any publicly traded company in the Stock Exchange which has similar line of business of MITC. We aware that there are numerous closely-held companies such as Hong Kong Weighing Equipment Co., Ltd., Sam Hing Scales Factory Limited and Johnson Measures and Weights Ltd. have similar line of business. However, we have difficulties in using these companies as guideline companies as no sufficient financial data and earnings of these companies are made available to the public to form a "guideline" of the industry. The use of these comparables will cause inadequate comparative analysis.

We noticed that there are numerous closely-held companies (including Sino-foreign equity joint ventures and foreign wholly owned enterprises) with similar business operations in China in various geographical locations i.e. market. However, we have reservation to use these companies as guideline companies for the same reason as stated in the above paragraph.

We are not aware of any merger and acquisition activities of similar business ventures in China and Hong Kong. We take the view that there might have been a number of merger and acquisition activities of similar business ventures in China and Hong Kong around the effective date of the appraisal, however, due to the imperfect nature of the market, details of the transactional data and the basis were not made available to the public to form “guidelines” of the industry.

This study is fully cognisant of the fact that there are some publicly traded companies in various stock exchanges of the United States of America (“U.S.”) that have approximately similar lines of business as MITC and have their own factories in China. Examples are Bonso Electronics International, Inc. and Mettler-Toledo International, Inc. However, we have reservation to rely solely on these companies for: i) the different market segment of these companies compared to MITC; ii) the size difference between these companies and the subject business enterprise which may involve subjective adjustment on the size premium; and iii) these companies are classified as multi-national companies with cross-border operations and enjoy various tax benefits and, subject to different accounting standards due to various rules set by the respective authorities, this may affect their financial ratios compared to a closely-held company that operated in Hong Kong, China. We, however, used these companies indirectly in our cross-checking exercise to evaluate whether the value we reached was sustainable from an adversary perspective.

### **The Income Approach**

The Income Approach focuses on the economic benefits generated by the income-producing capability of a business enterprise. The underlying theory of this approach is that the value of a business enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising those benefits. Alternatively, this can be calculated by capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate. This is subject to the assumption that the business enterprise has been maintaining stable economic benefits and growth rate.

However, we have reservation to use this approach in this study for the subject business enterprise which is an asset rich business enterprise with a total net tangible book value of approximately HK\$40 million as at the effective date of the appraisal. We take the view that the valuation arrived at by using this approach could only reflect the present value of the future economic benefits being generated by the income-producing capability of the subject business enterprise and it does not reflect the value of its manufacturing assets as a whole. In other words, this approach may understate the value of the subject business enterprise.

**Asset-based Approach**

To value an asset rich business enterprise, both in tangible and intangible assets, is a complex exercise. The respective classical approaches to value (namely Market and Income Approaches) are considered inappropriate to value the business enterprise value of MIT (as an investment holding) due mainly to their respective inadequacies as described in the previous sections of this letter. In other words, the business enterprise value of MIT cannot be appraised by using one single approach to value. Having considered the general and inherent characteristics of the subject business enterprise, we consider the appropriate way to value the business enterprise value of MIT is to use the Asset-based Approach (also known as balance sheet restatement approach) since the earning power of the subject business enterprise is derived primarily from its existing assets via members of the MIT Group as at the effective date of the appraisal.

The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business enterprise and equals to the value of its invested capital (equity and long-term debt). In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. This money comes from investors who buy the stocks of the business enterprise (equity) and investors who lend money to the business enterprise (debt). After collecting the total amount of money from equity and debt, and converted into various types of assets of the business enterprise for its operations, their sum equals the value of the business enterprise.

From a valuation perspective, the appraiser will restate the value of all types of assets of a business enterprise from book value i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the appraiser can identify the indicated value of the business enterprise, or, by applying the accounting principle “assets minus liabilities” to arrive at the value of the equity interests of the business enterprise.



**VALUATION METHODOLOGY AND ASSETS VALUED**

In choosing the Asset-based Approach as the most appropriate approach to value, we have considered both the Asset Accumulation Method and the Capitalised Excess Earnings Method. We had to discard the Capitalised Excess Earnings Method for no significant excess earnings are expected in the electronic consumer products manufacturing industry. By employing the Asset Accumulation Method, each asset of the business enterprises of the MIT Group is analysed, adjusted and appraised individually. Under this method and subject to the definition of this appraisal, the summation of the values of the individual appraised assets (both tangible and intangible) after deducting the total liabilities represents the business enterprise value of the subject business enterprise.

The scope of our valuations included the following:

**Financial Assets**

Relevant categories under Financial Assets comprise Cash, Notes Receivable, Advance Payments, Stocks and Other Receivables.

We were provided with copies of the unaudited balance sheet of MITC as at the effective date of the appraisal. Based on our agreed procedures, unless otherwise stated, we have adopted their book costs in our valuations.

**Tangible Assets***Real estate related*

## 1. Dongguan of China

MITC has rented the factory at Xiao Bian Industrial Estate, Changan, Dongguan of Guangdong Province of the PRC. The factory occupies a site with an area of approximately 8,000 square metres with a total of 4 various low rise buildings and structures having a total gross floor area of approximately 22,213 square metres. The major buildings and structures of the factory include two workshop blocks, one generator room and one composite block. As the factory is a leasehold interest, from a valuation perspective, it does not possess any commercial value for the purpose of our valuation.

## 2. Aberdeen of Hong Kong

The properties comprise Factory Unit A on the 5th Floor and Factory Units A and B on the 7th Floor of Tin Fung Industrial Mansion, 63 Wong Chuk Hang Road, Aberdeen, Hong Kong. The building is a 1967 completed 15-storeyed industrial building with carparking and loading / unloading facilities provided on the 4th Floor of the building. The properties have a total saleable area of approximately 2,315 square metres. Factory Unit A on the 5th Floor is used as a warehouse and Factory Units A and B on the 7th Floor are used for office purpose.

In the course of valuing these properties, we have employed the direct comparison approach on the instruction that the property to be sold with vacant possession by referring to comparable market transactions in the locality and close to the effective date of the appraisal.

### 3. Vancouver of Canada

The property comprises a 1998 completed strata titled sub-penthouse, three bedroom apartment unit of a high-rise residential complex situated at Strata Lot 487, District Lot 185, Land District 36, Plan #LMS 3094, in the City of Vancouver, BC of Canada.

The property has a gross floor area of approximately 105.17 square metres. The property is used as a director quarters.

In the course of valuing this property, we have employed the direct comparison approach on the instruction that the property to be sold with vacant possession by referring to comparable market transactions in the locality and close to the effective date of the appraisal.

#### *Non-real estate related*

Non-real estate assets comprise machinery and equipment, furniture and fixtures, moulds and tools, motor vehicles, leasehold improvements and construction in progress.

Due to the large number of line items included in the valuation, we conducted our inspection of the non-real estate assets on sampling basis. During our on-site inspection, we viewed and observed the operation in the factory and held discussions with relevant MITC's personnel to understand the scope and character of the subject assets. We then considered all three valuation approaches and found the Cost and Market Approaches as the most appropriate to value the non-real estate assets.

In conducting our valuation, we have taken into consideration the following:

- The extent, character and utility of the subject assets;
- Current replacement cost of the subject assets;
- Specifications of currently available assets;
- Used and new equipment dealer's prices; and
- Generally accepted useful or economic lives.

However, we have not taken into consideration any restrictions relating to the disposal of the subject assets in China as we cannot properly ascertain the existence of such restrictions from the documents provided to us nor we received any advice from the management of MITC. In our valuation, we have assumed that the subject assets can be freely sold and transferred in China. Should this not be the case, this will affect our valuation substantially.

### Intangible Assets

Intangible assets are assets without physical existence which, although not always reported on a company's balance sheet, may make a significant contribution to the value of an enterprise. Examples of intangible assets include, but are not limited to, trademarks, tradenames, assembled work force, easements and rights, patents, proprietary computer software, customer-related intangibles and technical know-hows.

#### *Trademark of "Accutech"*

We are given to understand that MITC registered the Trademark in the U.S. in 1998 and has also registered the Trademark in Hong Kong and in China. We consider it is not appropriate to assign a "positive" value to the Trademark as of the effective date of the appraisal not until there are solid sales with regard to the Trademark products made available for analysis. From a valuation perspective, we have assigned a nominal figure of HK\$100,000 to reflect the relevant cost to produce the Trademark.

#### *Patent of "Parallel Beam"*

The Patent was invented by various individuals and registered in the U.S. in 1987. The Patent was finally assigned to MITC in 1990 for the benefits (including assignment of the Patent) within the residual patent term and renewal term (if any). We are given to understand that the Patent is critical to MITC's self-designed and manufactured electronic scales and weighing instruments.

According to the rules and regulation in the U.S., the protection of patent term is usually 17 years for technical inventions and innovations and 14 years for design patents. We are given to understand that the Patent is a technical invention and granted to the inventors in 1984 (first filed) and 1987 (as a continuous grant and part of the first filed). Based on our discussion with the management of MITC, the protected term of the Patent is closed to expiry in 2004. Under such circumstance, we have assigned no particular value to this patented technology from a view of financial conservatism.

In valuing the equity interest of the subject business enterprise, we have considered the illiquidity of the equity interest from a perspective of closely held in nature. By definition, ownership interests in closely held companies are typically not readily marketable, and, by definition not as liquid and as easily converted to cash compared to similar interests in public companies. Thus, we have applied an illiquidity (lack of marketability) discount to the subject business enterprise to reflect the restriction.

**VALUATION COMMENTS AND CAVEATS**

We understand that the management of EC-Founder will use our work product as part of its business diligence and we have not been engaged to make specific purchase or sale recommendations. We further understand that the management of EC-Founder will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of EC-Founder should conduct in reaching its business decision. Our work is designed solely to provide information that will allow the management of EC-Founder to make an informed decision.

Title and the licence rights to the MIT Group are assumed to be good and marketable. In the course of appraisal, we have assumed that the equity interest of the subject business enterprise being valued in our appraisal is freely disposable and transferable in the market to both local and overseas purchasers without payment of any premium to the government.

No investigation has been made to the legal title, licence rights or any liabilities attached to each business enterprise of the MIT Group (including the leasehold interest). All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title to each business enterprise of the MIT Group and the licence rights (included the leasehold interest). We have not verified the original documents (if any) presented to us. Any responsibility for our misinterpretation of the documents, therefore, cannot be accepted. We are not attorney in nature, therefore, we are not in the position to advise and comment on the title and encumbrances to each business enterprise of the MIT Group and the licence rights (including the leasehold interest).

For the purpose of this appraisal, we were furnished with audited reports, unaudited financial statements and other documents germane to the appraisal by the management of MIT. We have utilised the data provided without further verification and make allowance for any change of industry, market, business model or the management of each business enterprise of the MIT Group. We have had no reason to doubt the truth and accuracy of the information that we have been furnished. No responsibility is assumed for the accuracy of such information.

When we adopted the work products from other professions and the management of MIT in our valuation, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuation. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

To the best of our knowledge, all data set forth in this letter are true and accurate. Although gathered from sources we deem reliable, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others which have been used in formulating this letter.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of MIT. We have sought and received confirmation from the management of MIT that no material factors have been omitted from the information supplied. Our analysis and appraisal are based upon full disclosure between LCH and the management of MIT of material and latent facts that may affect the appraisal.

No allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the equity interest of the subject business enterprise. It is assumed that the equity interest of the subject business enterprise will be rendered free from encumbrances, restrictions and outgoings of any onerous nature, which could affect its value.

We have conducted a limited scope of physical inspection to the factory and properties included in this appraisal. The purpose of the inspection is not to produce an error free asset list or a building inspection report; rather, the purpose of the inspection is to have a better understanding on the operation of the factory and the general conditions of the properties. We need to state that we have not inspected those parts of the factory and the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advise upon the condition of the inspected and uninspected parts and this letter should not be taken as making any implied representation or statement about such parts. However, no structural survey, investigation or examination has been made. In our valuation, we have assumed that no unauthorised structure, alteration or extension was found in the factory and the properties. In fact, we are unable to report that the factory and the properties are free from rot, infestation or any other defects. No tests were carried out to any of the services or facilities.

We are not engaged to conduct land surveys of the factory and the properties. We have assumed that the site boundaries and the areas as shown on the documents (if any) available to us are correct and, the factory and the properties are situated within its legal boundaries. No responsibility is assumed for such correctness.

We have not carried out on-site measurements to verify the correctness of the areas of the factory and the properties, but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the site where the factory and the properties are erected and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the sites. We have not carried out any investigation into past or present uses, either of the sites or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the sites from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the sites or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

Our opinion of the business enterprise value of MIT in this letter is valid only for the stated purpose and only for the effective date of the appraisal. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this letter to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

This letter is provided strictly for the sole use of EC-Founder. Neither the whole nor any part of this letter or any reference hereto may be included in any published document, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this letter in the Founder's circular dated 25 August 2003 to its shareholders.

Unless otherwise stated, the base currency of this letter is Hong Kong Dollars.

Our valuation is prepared in line with the ethics and guidelines as contained in the International Valuation Standards issued by the International Valuation Standards Committee and have been made in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

#### **OPINION OF VALUE**

Based on the investigation, analysis, stated assumptions, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as of the effective date of the appraisal, the business enterprise value of MIT (before taking into consideration any transaction costs), as a going-concern business, is reasonably stated by the amounts of HONG KONG DOLLARS FORTY FOUR MILLION ONLY (HK\$44,000,000.00).

The conclusion of value is based on the generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in this letter and should exercise caution in interpreting this letter.

We retain a copy of this letter in our files, together with the data from which it was prepared. We considered these records confidential, and we do not permit access to them by anyone without the management of EC-Founder's authorisation and prior arrangement made with us.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have neither present nor prospective interest in EC-Founder, the MIT Group and the value reported.

Yours faithfully,  
For and on behalf of  
**LCH (Asia-Pacific) Surveyors Limited**  
**Ho Chin Choi, Joseph** BSc MRICS  
*Managing Director*

*Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, South East Asia, Finland, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of power plants, toll road, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Canada and the United States of America.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executive of Founder in the securities of Founder and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to Founder and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he has taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required to be notified to Founder and the Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Companies” contained in the Listing Rules, were as follows:

### (a) Directors’ interests in shares of Founder and any of its associated corporations

- (i) Directors’ interests in EC-Founder Shares, where EC-Founder is an associated corporation of Founder under the SFO

Name of Director	Nature of interest	Number of EC-Founder Shares held
Cheung Shuen Lung	Personal	36,890,100
	As trustee*	63,459,100
Xiao Jian Guo	Personal	8,703,300
Wei Xin	Personal	3,956,000
	As trustee*	63,459,100
Zhang Zhao Dong	Personal	3,956,000
	As trustee*	63,459,100

\* These EC-Founder Shares held by each of the Directors (a total of 63,459,100 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 Founder held for the benefit of Founder, solely for the purpose of complying with the minimum company membership requirements.

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

Directors' interests in share options of EC-Founder

Name of Director	Number of share options held	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
	<u>4,000,000</u>			

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or the chief executive of Founder had any interest in the securities of Founder or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to Founder 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" contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

**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 or chief executive of Founder, the following corporations (not being a Director or the chief executive of Founder) who had an interest or a short position in the shares and underlying shares of Founder which would fall to be disclosed to Founder under provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Number of Founder Shares held	Percentage of Founder's issued share capital
Peking University Founder Group Corporation	367,179,610	32.67%
Peking University Education Foundation of China	59,223,750	5.27%
Super Highway Limited	59,223,750 <sup>#</sup>	5.27%



- # These shares are held by Super Highway Limited on behalf of Peking University Education Foundation of China

As at the Latest Practicable Date, the following corporations (not being a Director or the chief executive of Founder or his associates or a member of the Founder Group) 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 Founder:

<b>Name of subsidiary</b>	<b>Name of shareholder</b>	<b>Percentage of shareholding</b>
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.	中央日報社股份有限公司	49%
Founder International Inc.	Softbank Internet Technology Fund 2	13.57%
Power Print Inc.	Yahoo Japan Corporation	15%
	Konica Business Machines Japan Co., Ltd.	12.5%

Save as disclosed herein, the Directors and the chief executive of Founder are not aware of any person (other than a Director or the chief executive of Founder or his associates or a member of the Founder Group) who had an interest or a short position in the shares and underlying shares of Founder which would fall to be disclosed to Founder under provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Founder 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 Founder or any other member of the Founder Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### **5. LITIGATION**

As at the Latest Practicable Date, neither Founder nor any of its subsidiaries were engaged in any litigation or arbitration of material importance and there were no litigation or claim of material importance known to the Directors to be pending or threatened by or against Founder or any of its subsidiaries.

## 6. QUALIFICATIONS OF EXPERTS

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

<b>Name</b>	<b>Qualification</b>
LCH (Asia-Pacific) Surveyors Limited	Chartered Surveyors
Tai Fook	a licensed corporation under the transitional arrangement to carry on Type 6 (advisory on corporate finance) regulated activity for the proposes of the SFO

## 7. CONSENTS

Each of LCH (Asia-Pacific) Surveyors Limited and Tai Fook has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 25 August 2003 and references to its name, in the form and context in which they appear.

## 8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Founder Group since 31 December 2002 (being the date to which the latest published audited consolidated financial statements of Founder were made up).

## 9. GENERAL

- (a) The company secretary of Founder is Ms. Tang Yuk Bo, Yvonne, ACIS, ACS.
- (b) The Hong Kong branch registrar and transfer office of Founder are Computershare Hong Kong Investor Services Limited at Suite 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) No Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Founder Group taken as a whole.
- (d) Since 31 December 2002, the date to which the latest published audited financial statements of the Founder Group have been made up, none of the Directors or LCH (Asia-Pacific) Surveyors Limited or Tai Fook has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Founder Group.

- (e) As at the Latest Practicable Date, LCH (Asia-Pacific) Surveyors Limited and Tai Fook had no shareholding in any members of the Founder Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any members of the Founder Group.

## **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of Founder 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 (except public holidays) from the date of this circular up to and including 11 September 2003:

- (a) the Disposal Agreement;
- (b) the Termination Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- (d) the letter from Tai Fook to the Independent Board Committee, the text of which is set out on pages 14 to 24 of this circular;
- (e) the letter from LCH (Asia-Pacific) Surveyors Limited, the text of which is set out on pages 25 to 36 of this circular; and
- (f) the letters of consent from Tai Fook and LCH (Asia-Pacific) Surveyors Limited referred to in paragraph 7 above.

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## NOTICE OF SPECIAL GENERAL MEETING

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### FOUNDER HOLDINGS LIMITED 方正控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “Meeting”) of Founder Holdings Limited (the “Company”) will be held on Thursday, 11 September 2003 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolution of the Company:

**“THAT:**

- (a) the disposal by EC-Founder (Holdings) Company Limited (“EC-Founder”), an approximately 54.85% owned subsidiary of the Company, of the entire issued share capital of MIT Holdings Limited to Honour Glory Limited (“HGL”) in accordance with and subject to the terms of the sale and purchase agreement dated 1 August 2003 and made between EC-Founder as vendor, HGL as purchaser and Mr. Yung Richard, Jr. as guarantor to the purchaser (the “Disposal Agreement”) (a copy of the Disposal Agreement having been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) as more particularly described in a circular despatched to the shareholders of the Company dated 25 August 2003 (the “Circular”) and the possible continuing provision of Guarantee A (as defined in the Circular) by EC-Founder be and is hereby approved, confirmed and ratified AND THAT the directors of the Company acting together, individually or by committee (the “Directors”) be and are hereby authorised to do on behalf of the Company whatever they may, in their absolute discretion, consider necessary, desirable or expedient for the purposes of, or in connection with, the performance and implementation by EC-Founder of the Disposal Agreement and the agreements and documents relating thereto or contemplated thereby (in each case as amended if applicable) and to make or agree such alterations, amendments and additions thereto as the Directors may, in their absolute discretion, consider necessary desirable or expedient; and
- (b) the termination by EC-Founder (as defined in (a) above) of the management agreement entered into between EC-Founder and Ricwinco Investment Limited (“Ricwinco”) dated 17 May 2000 relating to, among other matters, the appointment of Ricwinco to manage the business of MIT Holdings Limited and its subsidiaries pursuant to the termination agreement dated 1 August 2003 and made between EC-Founder and Ricwinco (the “Termination Agreement”) (a copy of the Termination Agreement having been produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification) as more particularly described in the Circular (as defined in (a) above) be and is hereby approved, confirmed and ratified AND THAT the Directors (as defined in (a) above) be and are hereby authorised to do on behalf of the Company whatever they may, in their absolute

\* For identification purpose only

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## NOTICE OF SPECIAL GENERAL MEETING

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discretion, consider necessary, desirable or expedient for the purposes of, or in connection with, the performance and implementation by EC-Founder of the Termination Agreement and the agreements and documents relating thereto or contemplated thereby (in each case as amended if applicable) and to make or agree such alterations, amendments and additions thereto as the Directors may, in their absolute discretion, consider necessary desirable or expedient.

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

Hong Kong, 25 August 2003

*Notes:*

1. Any shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, 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. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting or at any adjourned meeting. In such event, the instrument appointing a proxy shall be deemed to be revoked.