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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in doubt** as to any aspect of this circular, you should consult a licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Founder Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, licensed securities dealer or other agents through whom the sale was effected for transmission to the purchaser or transferee.

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

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(Stock Code: 0418)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:  
THE PROPOSED DISPOSAL OF  
ENTIRE ISSUED SHARE CAPITAL OF  
FOUNDER APABI INTERNATIONAL LIMITED; AND**

**(2) CONTINUING CONNECTED TRANSACTIONS:  
THE MASTER PURCHASE AGREEMENT AND THE CAP**

Financial adviser



**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board (as defined herein) is set out on pages 4 to 11 of this circular. A letter of recommendation from the Independent Board Committee (as defined herein) to the Independent Shareholders (as defined herein) is set out on pages 12 to 13 of this circular. A letter of advice from KGI Capital Asia Limited to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) is set out on pages 14 to 24 of this circular.

A notice convening the SGM to be held at 10:00 a.m. on Friday, 23 November 2007 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 31 to 32 of this circular. Whether or not you are intended to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in any event not later than 48 hours before the time of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

6 November 2007

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## DEFINITIONS

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

“Announcement”	the announcement dated 16 October 2007 issued by the Company in relation to, among other things, the S&P Agreement and the Master Purchase Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Cap”	the maximum aggregate annual value of purchase of media products from the Peking Founder Group by the Group pursuant to the Master Purchase Agreement being RMB14,000,000, RMB37,000,000 and RMB40,700,000 for the three years ending 31 December 2007, 31 December 2008 and 31 December 2009 respectively
“Company”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which (stock code: 0418) are listed on the Main Board of the Stock Exchange
“Completion”	completion of the S&P Agreement
“Completion Date”	the date on which Completion shall take place, being the tenth business day after all the conditions precedent to the S&P Agreement have been satisfied or waived (as the case may be) or such other date as the parties to the S&P Agreement may agree in writing
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration under the S&P Agreement, being HK\$27,200,000
“Director(s)”	director(s) of the Company
“Disposal”	the S&P Agreement and the transactions contemplated thereunder
“Founder Apabi”	Founder Apabi International Limited, a company incorporated in the British Virgins Islands with limited liability and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Founder Apabi Group”	Founder Apabi and its subsidiaries
“Founder HK” or “Vendor”	Founder (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Founder Information” or “Purchaser”	Founder Information (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, which was owned as to 96.92% by Peking Founder as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising Mr. Li Fat Chung, Dr. Hu Hung Lick, Henry and Ms. Wong Lam Kit Yee, established for the purpose of advising the Independent Shareholders in relation to the terms of (i) the S&P Agreement; (ii) the Master Purchase Agreement; and (iii) the Cap
“Independent Shareholders”	Shareholders other than Peking Founder and its associates
“Latest Practicable Date”	5 November 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“KGI Capital”	KGI Capital Asia Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement, the Master Purchase Agreement and the Cap
“Master Purchase Agreement”	the master agreement dated 5 November 2007 entered into between Peking Founder and the Company in relation to the purchase of media products by the Group from the Peking Founder Group
“Master Sales Agreement”	the master agreement dated 5 November 2007 entered into between the Company and Peking Founder in relation to the sales of information products by the Group to the Peking Founder Group
“Peking Founder”	Peking University Founder Group Company Limited (北大方正集團有限公司), a company incorporated in the PRC with limited liability, which was interested in approximately 32.49% of the issued share capital of the Company as at the Latest Practicable Date

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## DEFINITIONS

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“Peking Founder Group”	Peking Founder and its subsidiaries
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“S&P Agreement”	the conditional agreement dated 16 October 2007 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the entire issued share capital of Founder Apabi
“Sale Share”	the ordinary share of US\$1.00 in the share capital of Founder Apabi, representing the entire issued share capital of Founder Apabi
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“SGM”	the special general meeting to be convened by the Company at 10:00 a.m. on Friday, 23 November 2007 to consider and, if thought fit, to approve, among other things, (i) the S&P Agreement; (ii) the Master Purchase Agreement; and (iii) the Cap
“Shareholder(s)”	holder(s) of ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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## LETTER FROM THE BOARD

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*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0418)

*Executive Directors:*

Mr. Zhang Zhao Dong (*Chairman*)  
Professor Xiao Jian Guo (*Deputy Chairman*)  
Mr. Liu Xiao Kun (*President*)  
Professor Wei Xin  
Mr. Chen Geng  
Mr. Xie Ke Hai

*Independent non-executive Directors:*

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

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Principal place of business in*

*Hong Kong:*

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

6 November 2007

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:  
THE PROPOSED DISPOSAL OF  
ENTIRE ISSUED SHARE CAPITAL OF  
FOUNDER APABI INTERNATIONAL LIMITED; AND**

**(2) CONTINUING CONNECTED TRANSACTIONS:  
THE MASTER PURCHASE AGREEMENT AND THE CAP**

**INTRODUCTION**

On 16 October 2007, the S&P Agreement was entered into between Founder HK, as the Vendor and Founder Information, as the Purchaser pursuant to which the Vendor has agreed to dispose of, and the Purchaser has agreed to purchase the Sale Share, representing the entire issued share capital of Founder Apabi.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The Master Purchase Agreement was entered into between Peking Founder and the Company on 5 November 2007 in order to govern and specify the terms adopted and the Cap for the total amount of the aforesaid ongoing transactions for the three years ending 31 December 2009. The terms and conditions of the Master Purchase Agreement are the same as those set out in the Announcement.

Details of the S&P Agreement, the Master Purchase Agreement and the Cap were already set out in the Announcement. The purpose of this circular is to give you (i) further information in relation to the S&P Agreement, the Master Purchase Agreement and the Cap; (ii) the notice of the SGM; (iii) the letter of advice from KGI Capital to the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement, the Master Purchase Agreement and the Cap; (iv) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the S&P Agreement, the Master Purchase Agreement and the Cap; and (v) other information as required under the Listing Rules.

### THE S&P AGREEMENT

#### **Date:**

16 October 2007

#### **Parties:**

- (i) Founder HK, as the Vendor; and
- (ii) Founder Information, as the Purchaser.

The Vendor, a legal and beneficial owner of the Sale Share, is an investment holding company incorporated in Hong Kong with limited liability.

The Purchaser is a company incorporated in Hong Kong with limited liability and is owned as to 96.92% by Peking Founder, an investment holding company incorporated in the PRC with limited liability. Peking Founder was interested in approximately 32.49% of the issued share capital of the Company as at the Latest Practicable Date.

#### **Sale Share:**

The Sale Share represents the entire issued share capital of Founder Apabi.

Subject to the terms and conditions of the S&P Agreement, the Vendor, has agreed to sell, and the Purchaser, has agreed to purchase, the Sale Share with effect from the Completion Date free from all claims, charges, liens, encumbrances, options, rights of pre-emption, defects, adverse interests and equities of any kind whatsoever but together with all rights attached, accrued or accruing thereto as at Completion and together with all dividends and distributions declared made or paid or agreed to be made or paid thereon or in respect thereof on or after the Completion Date.

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## LETTER FROM THE BOARD

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### **Consideration:**

The Consideration is HK\$27,200,000, which was determined at arm's length negotiations between the parties to the S&P Agreement. Pursuant to the S&P Agreement, the Consideration shall be paid on Completion by the Purchaser to the Vendor in cash.

The Consideration was based on the unaudited consolidated net assets value of the Founder Apabi Group of approximately HK\$27.1 million as at 30 June 2007.

### **Conditions precedent:**

Completion is conditional upon the following conditions being fulfilled or waived:

- (i) the passing of a resolution by the Vendor as shareholder of Founder Apabi approving the Disposal and all other documents and transactions incidental to and as contemplated under the S&P Agreement;
- (ii) the passing of a resolution of the board of directors of the Company approving the Disposal and all other documents and transactions incidental to and as contemplated under the S&P Agreement;
- (iii) the passing of a resolution of the board of directors of the Purchaser approving the Disposal and all other documents and transactions incidental to and as contemplated under the S&P Agreement;
- (iv) the passing of a resolution of the board of directors of the Vendor approving the Disposal and all other documents and transactions incidental to and as contemplated under the S&P Agreement;
- (v) the settlement in full of all liabilities (including but not limited to, the current account and any outstanding liabilities (trade or non-trade)) due from Founder Apabi to the Group as at 31 October 2007; and
- (vi) to the extent required by the Listing Rules, the passing of an ordinary resolution by the Independent Shareholders (who shall have no interest in the S&P Agreement) at the SGM by poll, approving the transactions contemplated under (i) the S&P Agreement; and (ii) the Master Purchase Agreement and the Master Sales Agreement pursuant to the requirements of the Listing Rules.

As at the Latest Practical Date, all of the above conditions have been fulfilled save and except item (vi) above.



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## LETTER FROM THE BOARD

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In the event that not all the conditions precedent to the S&P Agreement have been fulfilled or waived as aforesaid on or before 14 December 2007 (or such later date as the Vendor and the Purchaser may agree in writing), the S&P Agreement shall lapse and be of no further effect and no party to the S&P Agreement shall have any claim against, or liability or obligation (save for antecedent breaches of the S&P Agreement) to the other party.

### **Completion:**

Subject to fulfillment or waiver (if applicable) of the conditions precedent to the S&P Agreement, Completion shall take place on the Completion Date.

### **INFORMATION ON FOUNDER APABI AND THE PURCHASER**

#### **Founder Apabi**

Being an indirect wholly-owned subsidiary of the Company, Founder Apabi is a company incorporated in March 2006 in the British Virgin Islands with limited liability and is an investment holding company. Founder Apabi is the registered and beneficial owner of 100% of the equity interest in Beijing Founder Apabi Technology Co., Ltd. (北京方正阿帕比技術有限公司), which is principally engaged in sales and manufacture of computers and related hardwares and software development.

Set out below is a summary of the consolidated results of the Founder Apabi Group for the year ended 31 December 2006 and the six months ended 30 June 2007, prepared under the Hong Kong Financial Reporting Standards, which is consistent with the accounting policies adopted by the Group:

	<b>For the six months ended</b> <b>30 June 2007</b> <i>(Unaudited)</i> <i>HK\$'000</i>	<b>Year ended</b> <b>31 December 2006</b> <i>(Audited)</i> <i>HK\$'000</i>
Loss before taxation	22,545	12,611
Loss after taxation	22,545	12,611

Founder Apabi commenced business since July 2006. The unaudited consolidated net assets value of the Founder Apabi Group amounted to approximately HK\$27.1 million as at 30 June 2007.

#### **The Purchaser**

The Purchaser is a company incorporated in Hong Kong with limited liability and was owned as to 96.92% by Peking Founder as at the Latest Practicable Date. Peking Founder was interested in approximately 32.49% of the issued share capital of the Company as at the Latest Practicable Date. The Peking Founder Group is principally engaged in the provision of electronic publishing system, computer hardwares and softwares, communication equipment, office automation equipment and other related businesses.

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## LETTER FROM THE BOARD

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### **REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE S&P AGREEMENT**

The Group is principally engaged in software development and systems integration relating to the media industry and non-media industries related to financial institutions, enterprises and government departments.

Since the inception of business of Founder Apabi in April 2006, the Group has continuously made investments, in terms of resources and management time, for the development of the business of the Founder Apabi Group. However, the Board has noted that the financial and operating results of the Founder Apabi Group were unsatisfactory, as illustrated by the audited consolidated net loss after taxation of approximately HK\$12.6 million for the year ended 31 December 2006, and the unaudited consolidated net loss after taxation of approximately HK\$22.5 million for the six months ended 30 June 2007.

The Board considers that the Disposal provides the Group an opportunity to streamline its business model and thus enhance its profitability by the disposal of a loss-making business. In addition, the Group is not required to provide additional resources for the ongoing development of the Founder Apabi Group after Completion, which resources can be used for the remaining businesses of the Group.

As a result of Completion, the Directors expect that the Disposal will have no material impact on the assets and liabilities of the Group and the Group would record an unaudited gain on disposal of approximately HK\$8.4 million. Given that the Consideration is based on the unaudited consolidated net assets value of the Founder Apabi Group as at 30 June 2007, any operation loss of the Founder Apabi Group after 30 June 2007 will give rise to gain on disposal of the Group. The gain on disposal is calculated by taking into account the unaudited loss of Founder Apabi Group for the three months ended 30 September 2007 and the estimated professional expenses in connection with the Disposal. The sales proceed will be used for general working capital purposes.

Before Completion, Founder Apabi is an indirect wholly-owned subsidiary of the Company. After Completion, Founder Apabi will cease to be a subsidiary of the Company, and the Company will no longer have any interest in Founder Apabi.

In view of the above and having considered the terms of the S&P Agreement, the Directors are of the view that the entering into of the S&P Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole.

### **THE MASTER PURCHASE AGREEMENT AND THE CAP**

The Directors noted that the Founder Apabi Group has been supplying media products (including but not limited to softwares and hardwares in relation to media parts as well as system integration products like electronic library, electronic correspondence, electronic books and electronic stamps) to the Group on normal commercial terms.

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## LETTER FROM THE BOARD

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After Completion, Founder Apabi will become an indirect 96.92% owned subsidiary of Peking Founder, a connected person of the Company. Therefore, the ongoing sales of media products by the Founder Apabi Group to the Group will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

In light of the above, the Master Purchase Agreement was entered into between Peking Founder and the Company in order to govern and specify the terms adopted and the Cap for the total amount of the aforesaid ongoing transactions for the three years ending 31 December 2009. The term of the Master Purchase Agreement will commence from the date of approval by the Independent Shareholders at the SGM until 31 December 2009.

Pursuant to the Master Purchase Agreement, Peking Founder should provide media products at terms determined at the relevant time: (i) with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, and should be no less favourable than those, to independent third party customers in local market and/or adjacent regions; or (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, and should be no less favourable than those, to independent third party customers in the PRC; or (iii) where none of the above comparables is available, with reference to the prices and credit terms agreed between the parties on arm's length basis and that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Set out below are the historical amounts and the Cap:

	Year ended 31 December 2006 RMB'000	Six months ended 30 June 2007 RMB'000	Year ending 31 December 2007 RMB'000	Year ending 31 December 2008 RMB'000	Year ending 31 December 2009 RMB'000
<b>Peking Founder's sales to the Group</b>					
Actual amount	2,247	1,843	N/A	N/A	N/A
Cap for the Master Purchase Agreement	N/A	N/A	14,000	37,000	40,700

The Company has been purchasing media products from Founder Apabi for use in its electronic publishing business and system integration projects. The level of purchase orders placed by the Company is estimated to grow steadily as the demand for media products for the Company's business is experiencing a steady growth.

The transactions between Founder Apabi and the Company commenced since July 2006 and thus have a relatively short historical record. The Directors expect a growth in the transactions in the coming years, and are of the view that the transaction volume in the forthcoming years will experience a substantial increase compared with historical figures. The annual caps for the years ending 31 December 2008 and 2009 are based on the Company's expansion plan of operations and business development.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE MASTER PURCHASE AGREEMENT

The Directors believe that it is crucial to maintain the stability in supply and quality of media products for the existing and future purchasing needs of the Group. In view of the past purchasing experience, the Directors are of the view that the Founder Apabi Group can effectively fulfill the Company's high requirement in supply stability and product quality. Hence, maintaining a stable trading relationship with the Founder Apabi Group through the entering into of the Mater Purchase Agreement is of immense importance to the Group's day-to-day operations. The Directors confirm that the prices and terms provided by Peking Founder will be no less favourable to the Group than those offered by suppliers being independent third parties to the Group.

The Directors consider that the entering into of the Master Purchase Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, the Purchaser was owned as to 96.92% by Peking Founder, which in turn was interested in approximately 32.49% of the issued share capital of the Company. Therefore, the Purchaser is a connected person of the Company. As the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules exceed 2.5%, the Disposal also constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules. As such, the Disposal is subject to the approval by the Independent Shareholders at the SGM by poll.

After Completion, Founder Apabi will become an indirect 96.92% owned subsidiary of Peking Founder, a connected person of the Company. Therefore, the ongoing sales and purchases of media products between the Group and the Peking Founder Group will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules exceed 2.5%, the Master Purchase Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions for the Company under Rules 14A.16(5) and 14A.17 of the Listing Rules and are subject to the annual review, reporting and announcement requirements under Rules 14A.37 to 14A.41, 14A.45 and 14A.47 of the Listing Rules. In addition, both the Master Purchase Agreement and the Cap are subject to the approval by the Independent Shareholders pursuant to Rules 14A.17 and 14A.52 of the Listing Rules.

The S&P Agreement, the Master Purchase Agreement and the Cap will be subject to the approval by the Independent Shareholders by way of poll at the SGM. Peking Founder and its associates, who altogether held approximately 32.49% of the issued share capital of the Company and controlled the voting rights in respect of their Shares as at the Latest Practicable Date, shall abstain from voting at the SGM in respect of the resolution to approve the S&P Agreement, the Master Purchase Agreement and the Cap.

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## LETTER FROM THE BOARD

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The Independent Board Committee comprising Mr. Li Fat Chung, Dr. Hu Hung Lick, Henry, and Ms. Wong Lam Kit Yee has been established to advise the Independent Shareholders in respect of the S&P Agreement, the Master Purchase Agreement and the Cap. KGI Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the S&P Agreement, the Master Purchase Agreement and the Cap.

### RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of KGI Capital, is of the view that the S&P Agreement and the Master Purchase Agreement are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and Shareholders as a whole, and the Cap are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole, and accordingly would recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM.

### SGM

A notice convening the SGM to be held at 10:00 a.m. on Friday, 23 November 2007 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out in this circular. At the SGM, an ordinary resolution will be proposed for the Independent Shareholders to consider, and if thought fit, to approve the S&P Agreement, the Master Purchase Agreement and the Cap as set out in such notice.

Enclosed with this circular is a form of proxy for use at the SGM. Whether or not you are intended to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon contained in the notice of the SGM of this circular. The completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

### GENERAL

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

Yours faithfully,  
By Order of the Board  
**Founder Holdings Limited**  
**Zhang Zhao Dong**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0418)

6 November 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:  
THE PROPOSED DISPOSAL OF  
ENTIRE ISSUED SHARE CAPITAL OF  
FOUNDER APABI INTERNATIONAL LIMITED; AND**

**(2) CONTINUING CONNECTED TRANSACTIONS:  
THE MASTER PURCHASE AGREEMENT AND THE CAP**

We refer to the circular dated 6 November 2007 issued to the Shareholders (the “Circular”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms and conditions of the S&P Agreement, the Master Purchase Agreement and the Cap are fair and reasonable so far as the Independent Shareholders are concerned, and the S&P Agreement, the Master Purchase Agreement and the Cap are in the interests of the Group and the Independent Shareholders as a whole.

KGI Capital has been appointed as the independent financial adviser to advise us in connection with the transactions contemplated under the S&P Agreement, the Master Purchase Agreement and the Cap.

Having taken into account the opinion of KGI Capital and, in particular, the principal factors, reasons and recommendation set out in the letter from KGI Capital on pages 14 to 24 of the Circular, we consider that the S&P Agreement and the Master Purchase Agreement are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and Shareholders as a whole, and the Cap is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Group and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the S&P Agreement, the Master Purchase Agreement and the Cap.

*\* For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,  
For and on behalf of  
**Independent Board Committee**  
**Li Fat Chung Hu Hung Lick, Henry Wong Lam Kit Yee**  
*Independent non-executive Directors*

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## LETTER FROM KGI CAPITAL

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*Set out below is the text of the letter of advice from KGI Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, prepared for inclusion in this circular.*



### KGI Capital Asia Limited

27/F ICBC Tower  
Citibank Plaza  
3 Garden Road  
Central Hong Kong

Tel: 2878 6888  
Fax: 2970 0080

6 November 2007

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

Dear Sirs and Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:  
THE PROPOSED DISPOSAL OF ENTIRE ISSUED SHARE CAPITAL  
OF FOUNDER APABI INTERNATIONAL LIMITED; AND**

**(2) CONTINUING CONNECTED TRANSACTIONS:  
THE MASTER PURCHASE AGREEMENT AND THE CAP**

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed disposal of the entire issued share capital of Founder Apabi and the continuing connected transactions under the Master Purchase Agreement and the Cap, particulars of which are set out in the “Letter from the Board” (the “Letter”) contained in the circular dated 6 November 2007 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.



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## LETTER FROM KGI CAPITAL

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### **Discloseable and connected transaction**

As referred to in the Letter, on 16 October 2007, the S&P Agreement was entered into between Founder HK, as the Vendor, and Founder Information, as the Purchaser, pursuant to which the Vendor has agreed to dispose of, and the Purchaser has agreed to purchase, the Sales Share, representing the entire issued share capital of Founder Apabi at a consideration of HK\$27,200,000.

As stated in the Letter, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, the Purchaser was owned as to 96.92% by Peking Founder, which in turn was interested in approximately 32.49% of the issued share capital of the Company. Therefore, the Purchaser is a connected person of the Company. Based on the applicable size tests performed regarding the Disposal, the relevant percentage ratio under Rule 14.07 of the Listing Rules exceed 2.5%, the Disposal also constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules. As such, the Disposal is subject to the approval by the Independent Shareholders at the SGM by poll. Peking Founder and its associates shall abstain from voting in respect of the resolution to approve the Disposal at the SGM.

### **Continuing connected transactions**

Upon the Completion, Founder Apabi will become an indirect 96.92% owned subsidiary of Peking Founder, a connected person of the Company. Therefore, the ongoing purchases of media products by the Group from the Peking Founder Group will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As stated in the Letter, on 5 November 2007, the Master Purchase Agreement was entered into between Peking Founder and the Company in order to govern and specify the terms adopted and the annual caps for the total amount of the aforesaid ongoing transactions for the three years ending 31 December 2009.

As the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules exceed 2.5%, the entering into the Master Purchase Agreement and the transactions contemplated thereunder by the Company constitute non-exempt continuing connected transactions for the Company under 14A.16(5) and 14A.17 of the Listing Rules and are subject to the annual review, reporting and announcement requirements under 14A.37 to 14A.41, 14A.45 and 14A.47 of the Listing Rules. The Master Purchase Agreement and the Cap will also be subject to the approval by the Independent Shareholders by way of poll at the SGM, where Peking Founder and its associates shall abstain from voting in respect of the resolution to approve the Master Purchase Agreement and the Cap.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Li Fat Chung, Dr. Hu Hung Lick, Henry and Ms. Wong Lam Kit Yee, has been established to consider the terms of the Disposal and the continuing connected transactions contemplated under the Master Purchase Agreement and the Cap and to advise the Independent Shareholders as to whether the terms of the S&P Agreement and the Master Purchase Agreement and the Cap are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM KGI CAPITAL

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We, KGI Capital Asia Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the S&P Agreement and the continuing connected transactions contemplated under the Master Purchase Agreement and the Cap are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the information, financial information and facts supplied to us and representations expressed by the Company, its Directors and/or the management of the Company and have assumed that all such information, financial information, facts, statements of belief, opinion and intention and any representation made to us, or referred to in the Circular, in all material aspect, are true, accurate and complete as at the time they were made and as at the date of the Circular and shall continue to be true, accurate and complete at the date of the SGM, and has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Company and/or the management of the Company, and are based on honestly-held opinions. The Directors and/or the management of the Company have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have also assumed that all statement of intention of the Company, its Directors and management of the Company as set out in the Circular will be implemented. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided to us and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Company and its Directors and management of the Company in connection with the transactions and discussed with the management of the Company so as to assess the fairness and reasonableness of the terms of the S&P Agreement and the Master Purchase Agreement and the Cap. Relevant information and documents included, among other things, the S&P Agreement, the Master Purchase Agreement, the annual report of the Company for the year ended 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007, the latest financial statement of the Founder Apabi Group for the year ended 31 December 2006 and for the six months ended 30 June 2007. We believe that we have reviewed sufficient information to enable us to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion regarding the terms of the S&P Agreement and the Master Purchase Agreement and the Cap. We have not, however, carried out any independent verification of the information and representations provided to us by the management of the Company and the Directors nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company, Founder Apabi, Peking Founder, or their respective subsidiaries or associated companies. We have not studied, investigated nor verified the validity of all the legal aspects of, and procedural aspects for, the Disposal.

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## LETTER FROM KGI CAPITAL

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Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the entering into the S&P Agreement nor the Master Purchase Agreement. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the continuing connected transactions contemplated under the Master Purchase Agreement and the Cap, we have taken the following principal factors and reasons into consideration:

#### (I) THE DISPOSAL

##### 1. Background and reasons for the Disposal

###### *Information on the Group*

The Group is principally engaged in software development and systems integration relating to the media industry and non-media industries related to financial institutions, enterprises and government departments.

The following table tabulates the unaudited financial results of the Group for the six months ended 30 June 2006 and six months ended 30 June 2007 and the audited financial results of the Group for the two years ended 31 December 2006 as extracted from the 2007 interim report of the Group and the 2006 annual report of the Group respectively:

	<b>For the six months ended 30 June 2007 HK\$'000 (unaudited)</b>	<b>For the six months ended 30 June 2006 HK\$'000 (unaudited)</b>	<b>For the year ended 31 December 2006 HK\$'000 (audited)</b>	<b>For the year ended 31 December 2005 HK\$'000 (audited)</b>
Revenue	279,879	1,407,731	2,115,920	2,593,915
Net (loss)/profit after tax attributable to equity holders of the Company	(51,193)	(32,634)	25,911	47,929

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## LETTER FROM KGI CAPITAL

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As shown in the table above, net loss after tax attributable to equity holders of the Company increased from approximately HK\$32.6 million for the six months ended 30 June 2006 to approximately HK\$51.2 million for the six months ended 30 June 2007, of which the segment loss of the software development and systems integration for media sector for the six months ended 30 June 2007 contributed approximately HK\$36.9 million (segment loss of the software development and systems integration for media sector for six months ended 30 June 2006 was approximately HK\$31.6 million). According to the 2007 interim report of the Group, the increase in segment loss for the media business can also be attributed to the need of allocating further resources for the product development and market exploration for the business of the Founder Apabi Group.

### *Information on the Founder Apabi Group*

Before Completion, Founder Apabi, being a wholly-owned subsidiary of the Company, is a company incorporated in March 2006 in the British Virgin Islands with limited liability and is an investment holding company. Founder Apabi is the registered and beneficial owner of 100% of the equity interest in Beijing Founder Apabi Technology Co., Ltd. (北京方正阿帕比技术有限公司), which is principally engaged in sales and manufacture of computers and related hardware and software development.

The following table sets out the summary of the consolidated results of the Founder Apabi Group for the year ended 31 December 2006 and the six months ended 30 June 2007, prepared under the Hong Kong Financial Reporting Standards, which is consistent with the accounting policies adopted by the Group:

	<b>For the six months ended 30 June 2007 HK\$'000 (Unaudited)</b>	<b>For the year ended 31 December 2006 HK\$'000 (Audited)</b>
Loss before taxation	22,545	12,611
Loss after taxation	22,545	12,611

Founder Apabi commenced business since July 2006 and has been loss making for the year ended 31 December 2006 and six months ended 30 June 2007. It was stated in the 2007 interim report of the Group that the Group believes more resources would be required for the future development of the Founder Apabi Group's business before it could positively contribute to the Group's overall operation and performance and the management of the Company also considers that it is likely that the Founder Apabi Group will still be operating at a loss in the near future due to high research and development and marketing expenses and hence the Founder Apabi Group would be detrimental to the overall financial results of the Group in the near future. According to the management account of the Founder Apabi Group for the six months ended 30 June 2007, the unaudited consolidated turnover of the Founder Apabi Group amounted to approximately HK\$14.1 million and the unaudited consolidated net assets value of the Founder Apabi Group amounted to approximately HK\$27.1 million as at 30 June 2007.

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## LETTER FROM KGI CAPITAL

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### *Information on the Purchaser*

The Purchaser is a company incorporated in Hong Kong with limited liability and was owned as to 96.92% by Peking Founder as at the Latest Practicable Date. Peking Founder was interested in approximately 32.49% of the issued share capital of the Company as at the Latest Practicable Date.

### *Reasons for and benefits of the Disposal*

As stated in the Letter, the Directors consider that the Disposal will provide the Group an opportunity to streamline its business model and thus improve its performance by the disposal of a loss-making business and in addition, the Group will not then be required to provide additional resources for the ongoing development of the Founder Apabi Group upon the Completion, which resources can be used for the remaining businesses of the Group. Moreover, the Disposal would give rise to an unaudited gain on disposal of approximately HK\$8.4 million.

In light of (i) the continued loss-making operating and financial performance of the Founder Apabi Group since July 2006; (ii) the resources alternatively saved to focus on the remaining businesses of the Group after Completion; and (iii) an unaudited gain on the Disposal would be recorded, we concur with the views of the Directors that the Disposal would streamline the existing operations of the Group. As also advised by the management of the Group, the primary objective of the management in the near future is to turnaround the loss-making situation of the Group for the first half of 2007. After considering that (i) the continued loss-making situation of the Founder Apabi Group since July 2006; (ii) the Founder Apabi Group provide relatively insignificant revenue contribution to the Group; and (iii) the Disposal allows the Company to free up its management resources of the Group and then to focus on the remaining businesses of the Group, we are of the view that the Disposal provides a good opportunity for the Group to streamline its operations and is in line with the business objective of the Group.

## **2. Principal terms of the S&P Agreement**

Pursuant to the S&P Agreement, Founder HK, as the Vendor, has agreed to dispose of, and Founder Information, as the Purchaser, has agreed to purchase the Sales Share, representing the entire issued share capital of Founder Apabi, at a consideration of HK\$27,200,000. As stated in the Letter, the Directors confirmed that the consideration was determined after arm's length negotiations between the parties to the S&P Agreement and was determined with reference to the unaudited consolidated net asset value of the Founder Apabi Group as at 30 June 2007. The Consideration shall be paid on Completion by the Purchaser to the Vendor in cash.

As stated in the Letter, the Directors are of the view that the entering into of the S&P Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM KGI CAPITAL

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One of the commonly used references for valuing an entity is the price/earnings multiple. However, as the Founder Apabi Group has recorded losses since its inception of business in April 2006 which makes its price/earnings multiple not meaningful, we consider that the price/earnings multiple is not appropriate for valuing the Founder Apabi Group. Given that the Founder Apabi Group recorded consolidated net asset value of approximately HK\$27.1 million as at 30 June 2007 and no apparently better method is available in valuing the Founder Apabi Group, we consider that valuing Founder Apabi with reference to the consolidated net asset value of the Founder Apabi Group is justifiable. The consideration for the Disposal of HK\$27.2 million represents a slight premium of approximately 0.4% to the unaudited consolidated net asset value of the Founder Apabi Group as at 30 June 2007 of approximately HK\$27.1 million. In view of these, we are of the opinion that the Consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### 3. Possible financial effects

#### *Effect on net asset value*

Based on the interim report of the Group for the six months ended 30 June 2007, as at 30 June 2007, the Group had unaudited consolidated net assets attributable to equity holders of the Company of approximately HK\$359.4 million. As confirmed by the Directors, the Disposal would increase the consolidated net assets by the amount of the expected gain on the Disposal upon the Completion, which amounts to approximately HK\$8.4 million.

#### *Effects on earnings*

As mentioned in the section headed “Reasons for and benefits of the Disposal”, the Disposal is expected to lead to an one-off unaudited gain on disposal of approximately HK\$8.4 million to the Group.

Before Completion, the Company holds the entire equity interest of the Founder Apabi Group. The Company will cease to have any interest in the Founder Apabi Group upon Completion and accordingly the financial results of the Founder Apabi Group will no longer be consolidated into the Company’s financial statements and future possible profits or losses of the Founder Apabi Group would have no impact on the Group.

#### *Effects on gearing and working capital*

As confirmed by the Directors, the Disposal would not have any adverse impact on the gearing ratio of the Group. As referred to in the Letter, the Company intends to use the sales proceeds from the Disposal of HK\$27.2 million (before expenses) for general working capital purposes. Hence, the working capital of the Group would be enhanced upon Completion.

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## LETTER FROM KGI CAPITAL

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Judging from the aforementioned financial effects of the Disposal on the Group, including the potential enhancement of the net asset value of the Group and the Group's working capital, and the Group will record a gain on disposal, we consider that the Disposal is favourable to the Group and the Independent Shareholders and is in the interest of the Group and the Shareholders as a whole.

### (II) CONTINUING CONNECTED TRANSACTIONS

#### 1. Background of the Master Purchase Agreement

The Company refers to the Announcement dated 16 October 2007 in respect of the continuing connected transactions under the Master Purchase Agreement, which was entered into between the Company and Peking Founder on 5 November 2007, in relation to the purchase of media products by the Group from the Peking Founder Group.

As stated in the Letter, pursuant to the Master Purchase Agreement, the Peking Founder Group should provide media products at terms determined at the relevant time: (i) with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, and should be no less favourable than those, to independent third party customers in local market and/or adjacent regions; or (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, and should be no less favourable than those, to independent third party customers in the PRC; or (iii) where none of the above is available, with reference to the prices and credit terms agreed between the parties on arm's length basis and that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

As stated in the Letter, the Directors consider that the entering into of the Master Purchase Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole.

Currently, the purchase of media products from the Founder Apabi Group are mainly carried out by Founder Electronics (HK) Limited and Beijing Founder Order Computer System Co., Ltd, both are indirect wholly owned subsidiaries of the Company.

The purchase amount by the Group from the Founder Apabi Group for the year ended 31 December 2006 and the six months ended 30 June 2007 were approximately RMB2.25 million and RMB1.84 million respectively. As confirmed by the Directors, the media products supplied by the Founder Apabi Group could provide better compatibility to the system integration projects of the Group than similar products supplied by other suppliers. The Directors confirmed that after taking into account of the compatibility as mentioned before and the quality of and prices of products supplied by the Founder Apabi Group, apart from the Founder Apabi Group, the Group did not purchase similar products from other suppliers.

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## LETTER FROM KGI CAPITAL

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### 2. Reasons for and benefits of entering into the Master Purchase Agreement

The Group is principally engaged in software development and systems integration relating to the media industry and certain other industries. According to the Letter, the Founder Apabi Group has been supplying media products (including but not limited to softwares and hardwares in relation to media parts as well as system integration products like electronic library, electronic correspondence, electronic books and electronic stamps) to the Group on normal commercial terms for use in the Group's electronic publishing business and system integration projects.

The Directors believe that it is crucial to the existing and future purchasing needs of the Group to maintain the stability in volume and quality of media products and the Founder Apabi Group has been effectively fulfilling and meeting the Group's requirement in supply stability and product quality. As stated in the 2007 interim report of the Group, the Founder Apabi Group has gained a large market share in the PRC's e-library, e-document, e-book and e-chop business sectors. The Directors believed that demand for the products and services that the Founder Apabi Group provides will have a steady growth in the future. We have reviewed the Master Purchase Agreement and note that, pursuant to the Master Purchase Agreement, the terms of the products to be provided by the Peking Founder Group to the Group should be (i) with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, and should be no less favourable than those, to independent third party customers in local market and/or adjacent regions; or (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, and should be no less favourable than those, to independent third party customers in the PRC; or (iii) where none of the above is available, with reference to the prices and credit terms agreed between the parties on arm's length basis and that are fair and reasonable and in the interests of the Shareholders of the Company as a whole. In addition, the Directors consider that the products purchased from the Founder Apabi Group for use in the Group's system integration projects has been value added. Therefore, we concur with the Directors' views that the entering into the Master Purchase Agreement will provide the Group with the opportunity to provide a wider spectrum of services and products to its customers by capitalising upon the Group's established customer base of its software development and systems integration projects.

Having considered (i) the Group's satisfaction on the services provided and the quality of the products supplied by the Founder Apabi Group in the past; (ii) the potential demand from the Group's customer base for the products supplied by the Founder Apabi Group; and (iii) the terms of the products provided as governed under the Master Purchase Agreement are no less favourable than those to independent third party customers in local market and/or adjacent regions as mentioned above, we are of the opinion that it is in the interests of the Company and the Independent Shareholders as a whole for the Company to enter into the Master Purchase Agreement.



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## LETTER FROM KGI CAPITAL

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### 3. The Cap

Under the Master Purchase Agreement, the Cap are RMB14,000,000, RMB37,000,000 and RMB40,700,000 for the three years ending 31 December 2009, respectively. As discussed with the management of the Company, the Cap was determined based on the following major factors:

- (i) the actual value of purchases for the eight months ended 31 August 2007 amounting to approximately RMB2,950,000;
- (ii) the Company's internal estimation of usage of media products for the four months ending 31 December 2007 and the two years ending 31 December 2009; and
- (iii) the Company's internal estimation on the growth of the electronic media market in the PRC, including the demand for e-book and other electronic products that the Founder Apabi Group provides.

In order to consider the fairness and reasonableness of the Cap, we take into consideration of the following aspects:

- (i) the transactions between the Founder Apabi Group and the Group commenced since July 2006 and thus have a relatively short historical record. The Directors expect a substantial growth in the remaining months of year 2007 and the year 2008 as compared to historical figures; and
- (ii) the Directors expected that the electronic media market of the PRC would experience a significant growth in the coming years. As stated in the 2007 interim report of the Company, the products the Founder Apabi Group provides have gained a large market share in the PRC's e-library, e-document, e-book and e-chop business sectors. We have reviewed the internal projection of the Company and a breakdown in relation to the estimated usage of media products purchased from the Founder Apabi Group and the Directors considered that with the media products supplied by the Founder Apabi Group, the Group would be able to provide a wider spectrum of services and products to its customers. In view of the increasing trend of the electronic media industry and the market position of the Founder Apabi Group's products, we consider that sufficient and stable supply of media products from the Founder Apabi Group would enhance the Group's capabilities in capturing the anticipated market growth. We are therefore of the view that the basis for determining the Cap for the three years ending 31 December 2009 as proposed by the Directors are justifiable.

In view of the above, we consider that the Cap are fairly and reasonably determined.

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## LETTER FROM KGI CAPITAL

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### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the S&P Agreement and the Master Purchase Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and the Cap are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the S&P Agreement and the Master Purchase Agreement and the Cap which will be proposed at the SGM.

Yours faithfully,

**For and on behalf of**  
**KGI Capital Asia Limited**

**Laurent Leung**  
*Director*

**Jimmy Chan**  
*Senior Vice President*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS BY DIRECTORS

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

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

Long positions in ordinary shares of EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company under the SFO

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Professor Xiao Jian Guo	Directly beneficially owned	8,703,300	0.79%
Professor Wei Xin	Directly beneficially owned	3,956,000	0.36%
Mr. Zhang Zhao Dong	Directly beneficially owned	3,956,000	0.36%

**(b) Directors' rights to acquire shares in the Company and any of its associated corporations****(i) Directors' interests in share options of the Company**

<b>Name of Director</b>	<b>Number of share options held</b>	<b>Date of grant of share options</b>	<b>Exercise period of share options</b>	<b>Exercise price of share options HK\$</b>
Professor Xiao Jian Guo	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr. Zhang Zhao Dong	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104

**(ii) Directors' interests in share options of EC-Founder**

<b>Name of Director</b>	<b>Number of share options held</b>	<b>Date of grant of share options</b>	<b>Exercise period of share options</b>	<b>Exercise price of share options HK\$</b>
Mr. Zhang Zhao Dong	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr. Liu Xiao Kun	5,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest or short position in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Company were made up.

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

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors and the chief executive of the Company, the following corporation (not being a Director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) (Note 1)	367,179,610	32.49%
Peking Founder	367,179,610	32.49%

As at the Latest Practicable Date, the following corporations (not being a Director or the chief executive of the Company) were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

Name of subsidiary	Name of shareholder	Percentage of shareholding
Founder Searchage Technology Limited	Webforce Limited	30%
Founder Information Ltd.	吉呈科技股份有限公司	26.32%
Hope Information Technology Co., Ltd.	中央投資股份有限公司	49%

\* For identification purpose only

Notes:

- (1) Peking University Asset Management Company Limited was deemed to be interested in the 369,179,610 Shares under the SFO by virtue of its interest in Peking Founder.
- (2) Mr. Zhang Zhao Dong, Professor Xiao Jian Guo and Professor Wei Xin, being the Directors, are also the directors of Peking Founder, as at the Latest Practicable Date.

Save as disclosed herein, the Directors and the chief executive of the Company are not aware of any person (other than a Director or the chief executive of the Company or his associates or a member of the Group) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who has, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital as at the Latest Practicable Date.

#### **4. SERVICE CONTRACTS**

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

#### **5. EXPERT**

KGI Capital is a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under SFO.

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

As at the Latest Practicable Date, KGI Capital did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Company were made up.

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

#### **6. COMPETING INTERESTS**

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

**7. MATERIAL ADVERSE CHANGE**

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Company were made up.

**8. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigations or claims and no litigations or claims of material importance is pending or threatened against the Company or any member of the Group.

**9. PROCEDURES TO DEMAND A POLL**

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

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

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

- (i) the chairman of the meeting; or
- (ii) at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.
- (v) by any Director or Directors (including the chairman of a general meeting of the Company) who, individually or collectively, hold proxies in respect of shares representing 5 per cent, or more of the total voting rights at such meeting and if on a show of hands such meeting votes in the opposite manner to the instructed in those proxies.

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

**10. MISCELLANEOUS**

- (i) The company secretary of the Company is Ms. Tang Yuk Bo, Yvonne, an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (ii) The qualified accountant of the Company is Mr. Lau Fai Lawrence who is a Fellow of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants.
- (iii) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company in Hong Kong is at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong
- (iv) The branch share register of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents will be available for inspection at the office of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including Friday, 23 November 2007, the date of the SGM:

- (i) the S&P Agreement;
- (ii) the Master Purchase Agreement;
- (iii) the letter from the Independent Board Committee, the text of which is set out on page 12 to 13 of this circular;
- (iv) the letter from KGI Capital dated 6 November 2007, the text of which is set out on pages 14 to 24 of this circular; and
- (v) the letter of consent from KGI Capital referred to in the paragraph headed "Expert" above.



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## NOTICE OF SPECIAL GENERAL MEETING

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*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0418)

**NOTICE IS HEREBY GIVEN** that a special general meeting of Founder Holdings Limited (the “Company”) will be held at 10:00 a.m. on Friday, 23 November 2007 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution:

### **ORDINARY RESOLUTION**

**“THAT:**

the S&P Agreement (as defined in the circular of the Company dated 6 November 2007 (the “Circular”) of which the notice of this meeting forms part, a copy of which was marked “A” and has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) entered into between Founder (Hong Kong) Limited and Founder Information (Hong Kong) Limited in relation to the sale and purchase of the entire issued share capital of Founder Apabi International Limited of one ordinary share of US\$1.00 (the “Sale Share”) at a consideration of HK\$27,200,000 and the consideration for the sale of the Sale Share shall be satisfied in cash and subject to other terms and conditions set out in the S&P Agreement and all the transactions contemplated thereunder be and is hereby approved; the Master Purchase Agreement (as defined in the Circular of which the notice of this meeting forms part, a copy of which was marked “B” and has been produced to the meeting and signed by the chairman of the meeting for the purposes of identification) dated 5 November 2007 entered into between the Company and Peking Founder Group Company Limited and the proposed annual caps, in relation to the aforesaid continuing connected transactions for each of the three years ending 31 December 2009 and other terms and conditions set out in the Master Purchase Agreement and all the transactions contemplated thereunder be and are hereby approved; and any one director of the Company be and is hereby authorised on behalf of the Company to execute all such documents, in such final form or with such amendments as that director may deem appropriate, and to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the Master Purchase Agreement and the transactions contemplated therein.”

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

Hong Kong, 6 November 2007

*\* For identification purpose only*

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## NOTICE OF SPECIAL GENERAL MEETING

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*Notes:*

1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote in his/her stead. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend and vote in his/her stead. A proxy need not be a shareholder of the Company. Completion and return of the form of proxy will not preclude a shareholder from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
4. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Peking University Founder Group Company Limited, the controlling shareholder of the Company, and its associates (as defined in the Listing Rules) are required to abstain from voting on the above ordinary resolution.
5. The ordinary resolution as set out above will be determined by way of a poll.