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FOUNDATION GROUP LIMITED

基業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1182)

CHANGE OF PRINCIPAL PLACE OF BUSINESS ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF CYC INVESTMENTS LIMITED CONNECTED TRANSACTION

CHANGE OF PRINCIPAL PLACE OF BUSINESS

The Company announces that with effect from 8 March 2007, the principal office of the company has been changed to Room 1701, 17th Floor, The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong.

ACQUISITION

On 2 March 2007, the Purchaser, a wholly owned subsidiary of the Company has purchased and the Vendor has sold the Sale Shares for a nominal consideration of HK\$1. Mr. Cheng Chee Tock, Theodore, a Director, is the sole shareholder of the Vendor. The Vendor is therefore an associate of a connected person of the Company pursuant to Chapter 14A of the Listing Rules and is regarded as a connected person of the Company as defined under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company. As each of the percentage ratios (other than the profits ratio) falls within the de minimis provisions of Rule 14A.32 of the Listing Rules, the Acquisition is subject to the reporting and announcement requirements only and exempted from requirements of independent shareholders' approval.

GENERAL

Given that the public float of the Shares is less than 25% of the issued share capital of the Company, trading in the Shares remains suspended until the public float is restored as required under the Listing Rules.

CHANGE OF PRINCIPAL PLACE OF BUSINESS

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ACQUISITION

- Date: 2 March 2007
- Parties:
- (i) Highsharp Investments Limited as purchaser, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company. The principal business activity of the Purchaser is investment holding. The Purchaser has been inactive prior to the Acquisition.
 - (ii) Moral Harvest Investment Limited as vendor, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Cheng. The principal business activity of the Vendor and its subsidiary is investment holding.
- Nature of transaction: On 2 March 2007, the Purchaser has purchased and the Vendor has sold the Sale Shares.
- Assets to be acquired: The Sale Shares, representing 100% of the issued share capital of CYC Investments. WFOE is a wholly-owned subsidiary of CYC Investments and is the only assets of CYC Investments. The amount of the registered capital of WFOE is US\$1.3 million, of which no amount has yet been paid up as at the date of this announcement. It is expected that the outstanding amount of the registered capital of the WFOE (i.e. US\$1.3 million) will be funded by internal resources of the Company after Completion within 2 years from the date of establishment of the WFOE (i.e. 30 December 2006). The scope of business of the WFOE include, inter alia, providing consultancy service for organisation, investment and management of electronic tournament games and chess and poker games. As both CYC Investments and WFOE are dormant since its incorporation, no financial information for the past two financial years is available. Under the Contractual Arrangements described below, CYC Investments and WFOE will be able to enjoy the economic benefits in CYNCC in proportion to its interest in CYNCC. It is expected that CYNCC will be established on or before the second quarter of 2007. Subject to confirmation by the auditors of the Company, it is expected that CYNCC will be accounted for as a subsidiary of the Company upon the establishment of CYNCC.
- Consideration: Since both CYC Investments and WFOE are newly set up, the consideration for the Sale Shares is a nominal consideration of HK\$1. The consideration for the Sale Shares was reached at arm's length negotiations between the Vendor and the Purchaser and will be funded by the internal resources of the Company.

* For identification purposes only

Reason for the Acquisition:

The Group is engaged in apparel trading and securities trading. The Group has been reviewing its operation and financial position and seeking opportunities to improve its financial position. The Board is optimistic about the expansion of the on-line game and electronic tournament game market and has been assessing the business opportunity of offering peer-to-peer on-line games in internet cafes in the PRC. Upon its establishment, CYNCC will be engaged in the business of hosting and organising on-line chess and poker game tournaments and other electronic game tournaments and will acquire all the relevant permits for engaging in such business. Through the Contractual Arrangements (as described below), CYC Investments and WFOE will be able to enjoy the economic benefits in CYNCC in proportion to its interest in CYNCC. The Directors consider that through the Acquisition, the Group will be able to participate in the on-line chess and poker game tournaments and relevant electronic game tournaments business in the PRC and to broaden its income stream and diversify the risk of reliance on single industry.

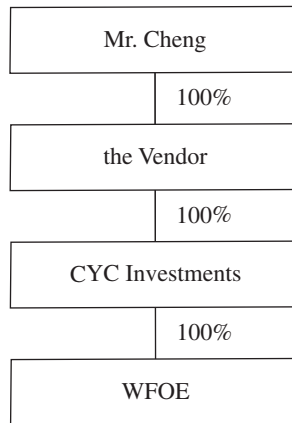
Completion:

The Acquisition was completed on 2 March 2007

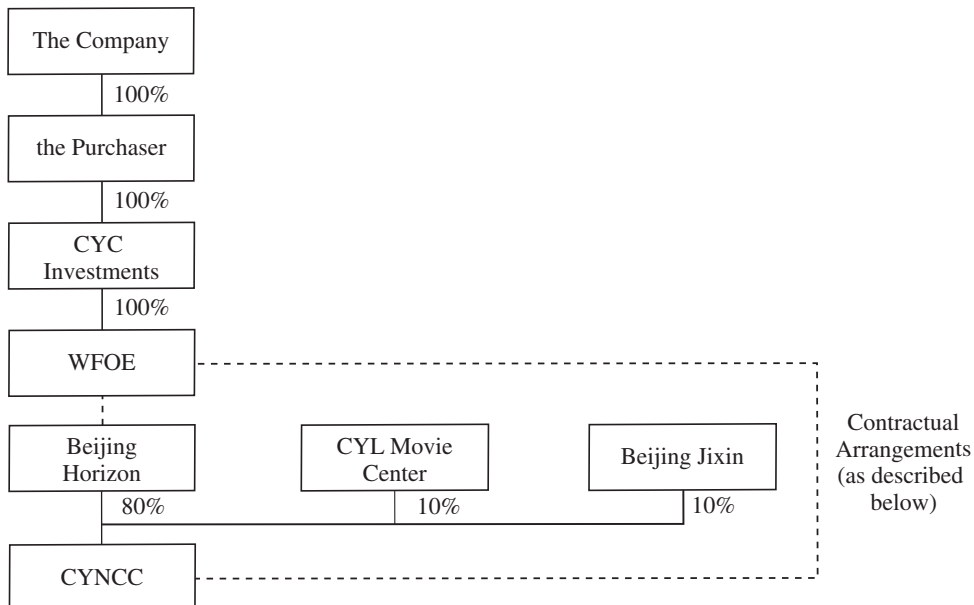
INFORMATION ON CYNCC

Pursuant to the shareholder’s agreement entered into among Beijing Horizon, CYL Movie Center and Beijing Jixin dated 14 February 2007, Beijing Horizon, CYL Movie Center and Beijing Jixin will establish CYNCC in Beijing, the PRC. The amount of registered capital of CYNCC is expected to be RMB 10 million which will be contributed as to RMB 8 million by Beijing Horizon, RMB 1 million by CYL Movie Center and RMB 1 million by Beijing Jixin. CYNCC upon establishment will be owned as to 80% by Beijing Horizon, 10% by CYL Movie Center and 10% by Beijing Jixin. Each of CYL Movie Center and Beijing Jixin will be guaranteed an aggregate return of RMB2.5 million within 3 years from the date of establishment of CYNCC. The said return will be paid out from CYNCC’s distributable profit (if available) or from internal resources of Beijing Horizon (if the distributable profit is not sufficient to cover the return). Subject to the approval of the relevant authorities, it is expected that CYNCC will engage in the business of hosting, organising and coordinating activities for on-line chess and poker game tournaments and other electronic game tournaments. Since CYNCC will acquire the Network Culture Operation Permit, it is expected that it will also cooperate with other companies to co-host such electronic game tournaments. It is expected that CYNCC will receive revenue from hosting, organising and coordinating (whether by itself or co-operate with other parties) the on-line chess and poker electronic game tournaments, such revenue is expected to be derived from tournament entrance fee, advertisement fee and/or sponsorship from other parties. The award that will be granted to the winner of the game tournaments will be jointly decided by CYNCC and other parties (including the co-host and sponsor of the game tournaments) in due course. CYNCC will not receive bets from the on-line game tournaments it organized. The Directors also confirm that they will not provide a platform of betting and gambling for the participants of the game tournaments. The Directors has confirmed that CYNCC will operate entirely in the PRC. It is expected that the game tournaments organised by CYNCC will not be able to be accessible via the internet or by other methods from outside the PRC. According to the PRC counsel of the Company, operation of poker electronic game tournaments is legal and will not automatically constitute “gambling” under the PRC laws.

Structure chart of CYC Investments Group immediately before the Completion



Structure chart of the CYC Investments Group immediately after the Completion

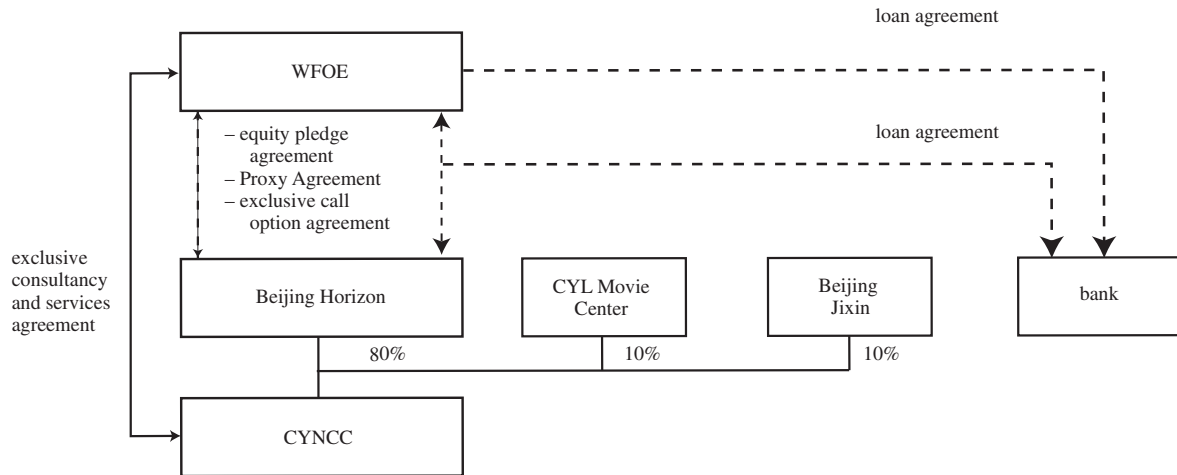


Note: Upon Completion, CYNCC will be accounted for as a subsidiary of the Company (subject to confirmation by the auditors of the Company). Notwithstanding the aforesaid, Beijing Horizon, CYL Movie Center and Beijing Jixin (including their respective associates) will be deemed as connected persons of the Company by virtue of them being a substantial shareholder of a subsidiary of the Company. Any transaction (other than the Contractual Arrangements (as described below)) between any of Beijing Horizon, CYL Movie Center, Beijing Jixin or their respective associates and any member of the Company will be deemed a connected transaction of the Company and subject to the requirements of Chapter 14A of the Listing Rules.

Contractual arrangements

It is anticipated that the following contractual arrangements (“Contractual Arrangements”) will be entered into between the relevant parties. According to the PRC counsel of the Company, as PRC regulations currently restrict foreign ownership of companies engaged in the on-line games, internet cafes and electronic tournament games business, the Contractual Arrangements are commonly used by foreign investors in investing in such business. No prohibition has yet been imposed by the PRC government on entering into these Contractual Arrangements. According to the PRC counsel of the Company, subject to the uncertainty in the interpretation and implementation of the relevant PRC laws, including, inter alia, the telecommunications and culture regulations, and their application to and the effect on the legal validity, binding effect and enforceability of the Contractual Arrangements and the transactions contemplated therein, the PRC counsel of the Company is of the view that the due performance by the parties thereto of its respective obligations under the Contractual Arrangements will not violate the PRC laws as applicable to such transactions of the type contemplated by the Contractual Arrangements and that assuming the due execution, delivery and authorization of the Contractual Arrangements by each of the parties thereto, the Contractual Arrangements are legal and enforceable under the PRC laws.

The following diagram set out the structure of the Contractual Arrangements:



- an exclusive consultancy and services agreement to be entered into between WFOE and CYNCC after its establishment, pursuant to which WFOE will provide certain technical and consultancy services (including software licensing, comprehensive IT solutions, management, maintenance and updating of hardware equipment and database, technical staff IT training and technical information research) to CYNCC. CYNCC will pay to WFOE (i) performance service fees periodically equivalent to a proportion of the total annual revenue of CYNCC with specific percentage to be separately determined by the parties before 31 March each year; and (ii) service fee for specific technical consultancy and services provided by WFOE to CYNCC;
- a loan agreement to be entered into among WFOE, Beijing Horizon and a bank in the PRC as the lending agent so that a loan which equal to the amount for acquiring 80% of the equity interest in CYNCC (i.e. RMB 8 million) will be provided by the bank to Beijing Horizon for the exclusive purpose of CYNCC’s business operation;
- a proxy agreement to be entered into between Beijing Horizon as the shareholder of CYNCC and WFOE in favour of WFOE so that WFOE will have full power and authority to exercise the shareholder’s voting rights with respect to Beijing Horizon’s interests in CYNCC;
- an exclusive call option agreement in respect of Beijing Horizon’s equity interest in CYNCC to be entered into between Beijing Horizon and WFOE whereby WFOE or a party designated by WFOE will be entitled to exercise a call option to purchase Beijing Horizon’s equity interest in CYNCC, if necessary or when the PRC law lifts the aforesaid restrictions on market admission, Beijing Horizon’s equity interest in CYNCC to the WFOE at a consideration equivalent to the proportion of the registered capital being transferred;
- an equity pledge agreement to be entered into between the WFOE and Beijing Horizon, pursuant to which Beijing Horizon will pledge its interest in CYNCC to the WFOE for the performance of the payment obligation of CYNCC and Beijing Horizon under the aforesaid exclusive consultancy and services agreement, the proxy agreement, the loan agreement and the exclusive call option agreement.

Save and except the nominal consideration for acquiring the Sale Shares, the outstanding amount of the registered capital of the WFOE (i.e. US\$1.3 million) to be contributed by the Group and the RMB8 million in the registered capital of CYNCC to be contributed by Beijing Horizon, there is no other capital contribution obligation required to be satisfied by the Group and Beijing Horizon in relation to the Acquisition and the Contractual Arrangements. The Contractual Arrangements are intended to provide the Group with effective control over CYNCC. The function of the exclusive consultancy and services agreement is to ensure the profits generated by CYNCC will be directed to WFOE in the form of service fees, and then WFOE can distribute such profits by distribute dividends to CYC Investments. The function of the proxy agreement is to grant WFOE voting rights in respect of Beijing Horizon’s equity interest in CYNCC so that the WFOE can control the corporate governance of CYNCC. The exclusive call option agreement has two functions: the first, when Beijing Horizon acts against WFOE’s interests, WFOE can designate another person to acquire Beijing Horizon’s equity interest in CYNCC at the agreed exercise price; and the second, when the PRC law lifts the aforesaid restrictions on market admission, WFOE or CYC Investments may acquire and hold equity interest in CYNCC directly at the agreed exercise price. The equity pledge agreement is entered into to secure the payment liabilities under the loan agreement and other obligations of Beijing Horizon. Beijing Horizon cannot legally sell its equity interest in CYNCC under equity pledge to the other parties without the consent of WFOE, and when Beijing Horizon acts against WFOE’s interests, WFOE may foreclose equity interest in CYNCC as collateral. As a result of the Contractual Arrangements, the Group will be able to govern the financial and operating policies of CYNCC and enjoy the economic interest in CYNCC in proportion to Beijing Horizon’s interest in CYNCC. If there is any material change to the terms of the Contractual Arrangements, the Company will re-comply with the relevant requirements of the Listing Rules.

Risk factors associated with the Contractual Arrangements in terms of the uncertainties in relation to the relevant legislations in the PRC

According to the PRC counsel of the Company, PRC laws and regulations restrict foreign ownership of the Internet content provision, Internet culture operation and Internet publishing licenses, and substantial uncertainties exist with respect to the application and implementation of the PRC laws and regulations. Under the Contractual Arrangements, the Group will depend on CYNCC, in which the Group has no ownership interest, to hold and maintain certain operating licenses necessary for the business of internet tournament games. However, since there are uncertainties regarding the interpretation and application of current and future PRC laws and regulations in relation to the operation of internet content provision, internet culture operation and internet publishing businesses in the PRC, there can be no assurance that the PRC regulatory authorities, in particular the Ministry of Information Industry (信息產業部) and the Ministry of Culture (文化部), which jointly regulate online game sector, will not in the future interpret and apply the PRC laws and regulations in a way that is contrary to the opinion of the PRC counsel. If the PRC government determines that the prior ownership of CYNCC or the Contractual Arrangements did not comply or do not comply with PRC government restrictions on foreign investment in the on-line game sector or that the Group or CYNCC are found to be in violation of any existing or future PRC laws and regulations, the relevant governmental authorities would have broad discretion in imposing penalties, including, levying fines, confiscating the income generated from the business, revoking business licenses, compulsory restructuring of operations of the Contractual Arrangements and closure or suspension of operations.

GENERAL

Mr. Cheng Chee Tock, Theodore, a Director, is the sole shareholder of the Vendor. The Vendor is therefore an associate of a connected person of the Company pursuant to Chapter 14A of the Listing Rules and is regarded as a connected person of the Company as defined under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company. Particulars of the Acquisition are disclosed in this announcement and will be disclosed in the Company's annual report in compliance with Rule 14A.45 and Rule 14A.47 of the Listing Rules. As each of the percentage ratios (other than the profits ratio) falls within the de minimis provisions of Rule 14A.32 of the Listing Rules, the Acquisition is subject to the reporting and announcement requirements only and exempted from the requirements of independent shareholders' approval.

The Directors (including the independent non-executive Directors) consider that the Acquisition was entered into after arm's length negotiations and reflects normal commercial terms and that the terms fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Given that the public float of the Shares is less than 25% of the issued share capital of the Company, trading in the Shares remains suspended until the public float is restored as required under the Listing Rules.

As at the date of this announcement, the executive Directors of the Company are Mr. Lim Direk, Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore (*the Chairman*) and the independent non-executive directors of the Company are Mr. Chu Kar Wing, Dr. Chow King Wai and Mr. Tang Yiu Wing.

DEFINITIONS

"Acquisition"	acquisition of the Sale Shares by the Purchaser from the Vendor
"associates"	has the meaning defined under the Listing Rules
"Beijing Horizon"	北京豪升融通貿易有限公司 (Beijing Horizon Trading Limited), a limited company established in the PRC, 60% equity owned by 張曉江 (Zhang XiaoJiang) and 40% equity owned by 孫衛平 (Sun Wei Ping), both of whom are employees of CYC Investments. Neither Mr. Zhang nor Mr. Sun is a connected person of the Company prior to the Completion but will become connected persons of the Company after the Completion by virtue of their shareholding interests in Beijing Horizon
"Beijing Jixin"	北京紀鑫偉業科貿有限公司 (Beijing Jixin Weiye Science and Trading Co., Ltd), a limited liability company established in the PRC, a substantial shareholder of CYNCC, save for its proposed shareholding interest in CYNCC and being a party to the Contractual Arrangements, Beijing Jixin and its ultimate shareholders are not connected person of the Company and are independent of and not connected with any of the directors, chief executives, substantial shareholders of the Company or any of their respective associates
"Board"	the board of Directors
"Company"	Foundation Group Limited, a company incorporated in Bermuda with limited liability, the ordinary Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition
"CYC Investments"	CYC Investments Limited, a company incorporated in Hong Kong with limited liability
"CYC Investments Group"	CYC Investments and the WFOE
"CYL Movie Center"	共青團中央網絡影視中心 (Network Movie Centre of the Central Committee of the Communist Youth League of China), an institutional unit legal person duly established and validly existing under the laws of the PRC, a substantial shareholder of CYNCC, save for its proposed shareholding interest in CYNCC and being a party to the Contractual Arrangements, CYL Movie Center and its ultimate shareholders are not connected person of the Company and are independent of and not connected with any of the directors, chief executives, substantial shareholders of the Company or any of their respective associates
"CYNCC"	中青網絡文化有限公司 (China Youth Network Culture Co., Ltd), a joint venture to be established in the PRC to be owned as to 80% by Beijing Horizon, 10% by CYL Movie Center and 10% by Beijing Jixin
"Directors"	directors of the Company
"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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheng”	Mr. Cheng Chee Tock, Theodore, a Director and the sole shareholder of CYC Investments
“Network Culture Operation Permit”	a permit issued by the PRC culture authorities as a license to engage in internet related culture and entertainment business, including but not limited to, online gaming, electronic game tournaments and internet cafes
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macao Special Administrative Region and Taiwan
“Purchaser”	Highsharp Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	the entire issued share capital of CYC Investments
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of United States of America
“Vendor”	Moral Harvest Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Mr. Cheng
“WFOE”	海南寶瀛實業有限公司 (Hainan Treasure Way Enterprises Limited), a wholly foreign owned enterprise established in the PRC, a wholly-owned subsidiary of CYC Investments

By order of the Board
Poh Po Lian
Director

Hong Kong, 8 March 2007

Please also refer to the published version of this announcement in China Daily.