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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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00418)**

**ADVANCE TO AN ENTITY,  
MAJOR TRANSACTION,  
CONTINUING CONNECTED TRANSACTION –  
ENTRUSTED LOAN MASTER AGREEMENT  
AND  
NOTICE OF SGM**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board of Founder Holdings Limited is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from Industrial Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 24 of this circular.

A notice convening the special general meeting to be held at 10 a.m. on Wednesday, 10 September 2014 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 33 to 34 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of Founder Holdings Limited at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time of the special general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting should you so wish.

\* *For identification purpose only*

22 August 2014

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## DEFINITIONS

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

“2011 Entrusted Loan Master Agreement”	the entrusted loan master agreement dated 1 November 2011 entered into between the Company and Peking Founder, pursuant to which the Group would, subject to certain conditions, provide short term loans through a financial institution (to be designated by the parties and being an independent third party to the Company and the connected persons) to Peking Founder Group;
“Announcement”	Announcement of the Company dated 28 July 2014;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Business Day(s)”	means day(s) (excluding a Saturday and Sunday) on which banks generally are open for business in Hong Kong;
“Company”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00418);
“connected person”	has the meaning ascribed to it in the Listing Rules;
“Directors”	directors of the Company;
“Entrusted Loan Master Agreement”	the master agreement dated 28 July 2014 entered into between the Company and Peking Founder, pursuant to which the Group would, subject to certain conditions, provide short term loans through a financial institution (to be designated by the parties and being an independent third party to the Company and the connected persons) to Peking Founder Group;
“Founder Information”	北大方正信息產業集團有限公司 (Peking University Founder Information Industry Group Co., Ltd.*), a company established in the PRC with limited liability, the controlling shareholder of the Company, which directly holds approximately 31.42% of the issued share capital of the Company;
“Group”	the Company and its subsidiaries;

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## DEFINITIONS

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“HK\$”	means 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”	The independent board committee comprising the independent non-executive Directors;
“Independent Shareholders”	Shareholders other than Peking Founder and its associates;
“Industrial Securities” or “Independent Financial Adviser”	Industrial Securities (HK) Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Entrusted Loan Master Agreement (including the proposed annual caps for the three years ending 31 December 2016);
“Latest Practicable Date”	19 August 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Peking Founder”	北大方正集團有限公司 (Peking University Founder Group Company Limited*), a company established in the PRC with limited liability, the controlling shareholder of the Company, which indirectly holds approximately 31.42% of the issued share capital of the Company;
“Peking Founder Group”	Peking Founder and its subsidiaries;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and approve (among other things), if thought fit, the Entrusted Loan Master Agreement and its annual caps;

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## DEFINITIONS

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“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	the holders of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed to it under the Listing Rules;
“%”	percentage

*For illustrative purpose only, HK\$ is converted into RMB at an exchange rate of RMB1 = HK\$1.243 in this circular.*

*\* For identification purpose only*

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LETTER FROM THE BOARD

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

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00418)**

*Executive Directors:*

Mr Fang Zhong Hua, *Chairman*  
Professor Xiao Jian Guo, *Deputy Chairman*  
Professor Yang Bin, *President*  
Ms Yi Mei  
Ms Zuo Jin  
Ms Liu Yu Xiao

*Independent Non-executive Directors:*

Mr Li Fat Chung  
Ms Wong Lam Kit Yee  
Mr Fung Man Yin, *Sammy*

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Head office and principal place  
of business in Hong Kong:*

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

22 August 2014

Rule 2.14  
Rule 17.56A

*To the Shareholders,*

Dear Sir or Madam,

**ADVANCE TO AN ENTITY,  
MAJOR TRANSACTION AND  
CONTINUING CONNECTED TRANSACTION –  
ENTRUSTED LOAN MASTER AGREEMENT  
AND  
NOTICE OF SGM**

**INTRODUCTION**

Reference is made to the Announcement in relation to, amongst other things, the Entrusted Loan Master Agreement.

The purposes of this circular are to provide you with, among other things, (1) further information relating to the details of the Entrusted Loan Master Agreement and the annual caps; (2) a letter of advice from Industrial Securities to the Independent Board Committee and the Independent Shareholders; (3) the recommendation of the Independent Board Committee to the Independent Shareholders; and (4) a notice of the SGM.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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### ENTRUSTED LOAN MASTER AGREEMENT

**Date:** 28 July 2014

**Parties:** The Company, as the lender; and  
Peking Founder, as the borrower

The Company previously entered into the 2011 Entrusted Loan Master Agreement which will expire on 31 December 2014. The Company has reviewed the annual caps and it is expected that in the year 2014, the amounts of the entrusted loans to be provided by the Company are likely to be greater than originally estimated at the time of the entering into of the 2011 Entrusted Loan Master Agreement. Accordingly, the Company has entered into the Entrusted Loan Master Agreement with Peking Founder pursuant to which the Group would provide, subject to certain conditions, short-term loans through a financial institution (to be designated by the parties and being an independent third party to the Company and its connected persons) to Peking Founder Group. Such loans will be unsecured and interest-bearing at the prevailing benchmark RMB lending interest rate for loan period of six months offered by The People's Bank of China ("PBOC") plus 15% of such rate. In determining the interest rate for the Entrusted Loan, the Directors took into account that the average interest rate for the bank loans obtained by the subsidiary of the Group in the PRC is at a prevailing benchmark RMB lending interest rate for loan period offered by PBOC plus below 15% of such rate. In view of this, the Directors considered that interest rate of 15% above the PBOC rate is in the interests of the Company and the Shareholders as a whole. For example, if the prevailing benchmark RMB lending interest rate as quoted by the PBOC is 5% per annum, the interest rate for the entrusted loans would be 5.75% per annum. Under the Entrusted Loan Master Agreement, no collateral was provided by Peking Founder to the Company. Separate entrusted loan agreements will be entered into between the Group, Peking Founder Group and the designated financial institution upon request by Peking Founder pursuant to the terms and conditions of the Entrusted Loan Master Agreement.

In assessing the default risk of Peking Founder Group, the management of the Group has reviewed the financial statements, repayment history, and credit report of Peking Founder Group. The management of the Group noticed that the bank loans obtained by the subsidiary of the Group in the PRC (which provided entrusted loans to Peking Founder Group) are unsecured and guaranteed by Peking Founder. In view of the aforementioned, no collateral is required from Peking Founder in respect of the Entrusted Loan.

Taking into account that the bank loans obtained by the subsidiary of the Group in the PRC are unsecured and guaranteed by Peking Founder, the Directors are of the view that the Entrusted Loan without collateral is on normal commercial term and is in the interests of the Company and the Shareholders as a whole.

#### **Term**

The Entrusted Loan Master Agreement will, subject to the satisfaction of the conditions precedent set out below, become effective from the date on which Independent Shareholders' approval is obtained at the SGM and expire on 31 December 2016.

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## LETTER FROM THE BOARD

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### Historical Figures and annual caps for the entrusted loans

The following table sets out the historical figures of the average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) for each of the two years ended 31 December 2013 and six months ended 30 June 2014, historical annual caps for each of the three years ending 31 December 2014, and the proposed annual caps for the entrusted loans under the Entrusted Loan Master Agreement (representing the maximum balance of the principal and interests of the relevant entrusted loans) for each of the three years ending 31 December 2016:

	Year ended 31 December 2012	Year ended 31 December 2013	Six months ended 30 June 2014	Year ending 31 December 2014	Year ending 31 December 2015	Year ending 31 December 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical figures	103,546	193,748	208,766	N/A	N/A	N/A
Historical Annual Cap	199,000	205,965	N/A	213,174	N/A	N/A
Proposed Annual Cap	N/A	N/A	N/A	320,000	331,200	342,792

The annual cap amounts for the Entrusted Loan Master Agreement are determined based on average cash and bank balance available of a subsidiary of the Group and its average total monthly net profit/loss for the five months ended 31 May 2014. It is expected that there will be a 3.5% annual increase in the subsidiary's cash and bank balance from 2014 to 2016. Based on the above, the relevant annual caps are set in the amount of RMB320 million, RMB331.200 million and RMB342.792 million respectively for the three years ending 31 December 2016.

### Repayment Terms

The entrusted loans are repayable within six months from the date of drawing of the relevant entrusted loan. If Peking Founder Group fails to repay the outstanding amount under the relevant entrusted loan agreements, Peking Founder Group shall be liable to pay, on a daily basis, a default interest at the rate of 0.02% of the total outstanding loan amount, until all of the principal amount, the interests together with other applicable charges and/or fees are fully repaid.

### Events of Default

If any of the following matters arise, the entrusted loans are repayable forthwith, unless otherwise waived by the Company in writing:

1. Peking Founder Group provides false balance sheets, profit and loss statements and other financial statements or provides such statements which withhold material facts;



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## LETTER FROM THE BOARD

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2. The representations and warranties and undertakings made and given by Peking Founder under the Entrusted Loan Master Agreement or those made and given by the borrower pursuant to the relevant entrusted loan agreement proves to be untrue or misleading;
3. In the reasonable opinion of the Company, there has been a serious deterioration in the operating and financial position of Peking Founder or of the borrower pursuant to the relevant entrusted loan agreement;
4. Peking Founder or the borrower pursuant to the relevant entrusted loan agreement is in breach of its obligations as borrower or guarantor under any other loan agreements;
5. Peking Founder or the borrower pursuant to the relevant entrusted loan agreement fails to make a repayment arrangement or debt restructuring plan to the satisfaction of the trustee when it is undergoing a merger, split or share reform;
6. Peking Founder or the borrower pursuant to the relevant entrusted loan agreement is insolvent, dissolved, closed down, revoked, suspended and deregistered;
7. Peking Founder ceases to be a controlling shareholder (as defined in the Listing Rules) of the Company; or
8. Peking Founder fails to honour its undertaking or other obligations under the Entrusted Loan Master Agreement.

### **Conditions**

The Entrusted Loan Master Agreement is conditional upon the fulfillment of the following conditions:

1. the passing of the resolution by the Independent Shareholders at the SGM and by the Board for approving the terms of the Entrusted Loan Master Agreement as required under the Listing Rules and in accordance with the Company's bye-laws; and
2. the board of directors of Peking Founder having approved the terms of the Entrusted Loan Master Agreement in accordance with Peking Founder's articles of association.

### **Reasons and Benefits to the Group**

Peking Founder Group is principally engaged in the securities trading and brokerage and the information technology industry, including software and system development for the publishing sector and various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management.

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## LETTER FROM THE BOARD

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

Since no member of the Group is a licensed financial institution, the Group is not authorized to carry out banking related businesses in the PRC.

In order to fully utilize the Group's surplus cash and unutilized banking facilities in the PRC and enhance the monetary return of such surplus fund, the Company has made proposals for loan arrangements in the form of entrusted loans through a financial institution designated by the Group and Peking Founder Group.

Given that:

- i. the Group has received funds from the intellectual properties transfer agreement and patents licence agreement with China Digital Video (Beijing) Limited on 18 March 2013 as announced in its announcement on 18 March 2013 and circular on 16 April 2013;
- ii. the growth of scale of the Group's inkjet printing business resulting in higher credit limit and longer credit periods offered by the suppliers;
- iii. the current interest rate on bank deposits is relatively low; and
- iv. the relatively higher risk of other financial products,

the Company considers that the proposed annual cap for the year ending 31 December 2014 will facilitate the Group in its effort to maximize the Group's surplus cash and unutilized banking facilities in the PRC. As at the date of this announcement, the transaction amounts of the continuing connected transactions under the 2011 Entrusted Loan Master Agreement have not exceeded the original annual caps for the year ending 31 December 2014 as disclosed in the announcement of the Company dated 1 November 2011.

As at 30 June 2014, the Group has cash and bank balance of HK\$385.7 million with unutilised banking facilities available in the amount of HK\$575.3 million and HK\$34.0 million in Hong Kong and the PRC, respectively.

The banking facilities of the Group in the PRC are unsecured and guaranteed by Peking Founder while the banking facilities of the Group in Hong Kong are secured by properties in Hong Kong and pledged deposits of the Group and its related companies. The entrusted loans contemplated under the Entrusted Loan Master Agreement are to be provided by the subsidiary of the Group in the PRC and its banking facilities in the PRC are unsecured and guaranteed by Peking Founder. In view of this, the Directors are of the view that the loan arrangement under the Entrusted Loan Master Agreement would not create significant liquidity risk to the Group.

The Group will consider its financial position and future use of cash before providing the Entrusted Loan upon request. It is not a must to provide the Entrusted Loan.

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## LETTER FROM THE BOARD

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The entrusted loans are granted by the designated financial institution to Peking Founder Group on behalf of the Group, from time to time, on a short-term basis and on normal and commercial terms.

The terms of the Entrusted Loan Master Agreement, including the interest rate applicable, were agreed by the parties after arm's length negotiations having taken into account the prevailing market interest rates and practices. The Directors (excluding all independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) consider that the interest rate under the Entrusted Loan Master Agreement is favourable to the Group and the provision of the entrusted loans to Peking Founder Group could generate a higher return for the idle surplus cash of the Group. Taken into consideration the creditworthiness of Peking Founder Group and its sound financial performance in the past, the Directors (excluding all independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) consider that the entrusted loan arrangement will bring in more value to the shareholders of the Company as a whole by enhancing the monetary return of the Group's surplus funds generated from operations. Based on the above, the Directors (excluding all independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) consider that the terms of the Entrusted Loan Master Agreement and the transactions contemplated therein are on normal commercial terms and are fair and reasonable though not in the ordinary and usual course of business of the Group but are in the interests of the Company and its shareholders as a whole.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Company is owned as to approximately 31.42% of the issued Shares by Founder Information, which is a subsidiary of Peking Founder. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Entrusted Loan Master Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

Further, provision of the entrusted loans under the Entrusted Loan Master Agreement may also constitute (i) advance to an entity under Rule 13.13 of the Listing Rules, (ii) financial assistance provided by the Company not in the ordinary and usual course of business and a major transaction under Chapter 14 of the Listing Rules. Since one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules in respect of the Entrusted Loan Master Agreement exceeds 25%, the transactions contemplated under the Entrusted Loan Master Agreement shall be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Professor Xiao Jian Guo is a director and chief technical officer of Peking Founder, Professor Xiao Jian Guo has abstained from voting on the Board's resolutions approving the transactions contemplated under the Entrusted Loan Master Agreement and is required to abstain from voting on the ordinary resolution set out in the notice of SGM. As Mr Fang Zhong Hua is the director of Founder Information, Mr Fang Zhong Hua is an associate of a connected person, has abstained from voting on the Board's resolutions approving the

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## LETTER FROM THE BOARD

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transactions contemplated under the Entrusted Loan Master Agreement and is required to abstain from voting on the ordinary resolution set out in the notice of SGM. Except for the aforesaid, no other Director is considered to have material interest in the transactions contemplated under the Entrusted Loan Master Agreement.

### INFORMATION ABOUT THE COMPANY

The Company is an investment holding company. The Group is principally engaged in software development and systems integration.

### INFORMATION ABOUT PEKING FOUNDER

Peking Founder is the controlling shareholder of the Company indirectly holding approximately 31.42% of the issued share capital of the Company. Peking Founder is principally engaged in the securities trading and brokerage and the information technology industry, including software and system development for the publishing sector and various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management.

### SGM

A notice convening the SGM to be held at 10 a.m. on Wednesday, 10 September 2014 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 33 to 34 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolution in relation to the Entrusted Loan Master Agreement and its annual caps.

The ordinary resolution to be proposed at the SGM will be determined by way of poll by the Independent Shareholders. Any shareholder with a material interest in the Entrusted Loan Master Agreement and his/her/its associates will abstain from voting on the relevant resolution. Accordingly, (i) Founder Information, an associate of Peking Founder, which held 367,179,610 Shares as at the Latest Practicable Date, (ii) Professor Xiao Jian Guo, an associate of Peking Founder, who held 2,955,200 Shares as at the Latest Practicable Date, and (iii) Mr Fang Zhong Hua, an associate of Founder Information, who held 2,955,200 Shares as at the Latest Practicable Date, are required to abstain from voting with respect to the resolution for approving the Entrusted Loan Master Agreement and its annual caps.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not less than 48 hours before the time scheduled for the holding of the SGM or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournments thereof should you so desire.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders in connection with the terms of the transactions contemplated under the Entrusted Loan Master Agreement and its annual caps.

Industrial Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders on the Entrusted Loan Master Agreement and its annual caps.

The Independent Board Committee, having taken into account the advice of Industrial Securities, is of the view that the transactions contemplated under the Entrusted Loan Master Agreement and its annual caps are on normal commercial terms, the terms of the transactions contemplated under the Entrusted Loan Master Agreement and its annual caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of SGM enclosed to this circular.

### GENERAL

Your attention is also drawn to the letter from the Independent Director, the letter from Industrial Securities and the additional information set out in Appendix I and Appendix II to this circular and the notice of SGM.

Yours faithfully,  
By Order of the Board  
**Founder Holdings Limited**  
**Fang Zhong Hua**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00418)**

22 August 2014

*To the Independent Shareholders*

Dear Sir or Madam,

**ADVANCE TO AN ENTITY,  
MAJOR TRANSACTION AND  
CONTINUING CONNECTED TRANSACTION –  
ENTRUSTED LOAN MASTER AGREEMENT**

We refer to the circular dated 22 August 2014 issued by the Company (the “Circular”) of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Entrusted Loan Master Agreement and its annual caps which require approval by the Independent Shareholders and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the transactions contemplated under the Entrusted Loan Master Agreement and its annual caps and to recommend how the Independent Shareholders should vote at the SGM. Industrial Securities has been appointed to advise us, the Independent Board Committee, in relation to the Entrusted Loan Master Agreement and its annual caps.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 11 of the Circular, and the letter from Industrial Securities to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Entrusted Loan Master Agreement and its annual caps, as set out on pages 14 to 24 of the Circular.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account of the principal factors and reasons considered by Industrial Securities and its conclusion and advice, we consider that transactions contemplated under the Entrusted Loan Master Agreement and its annual caps are on normal commercial terms, the terms of the transactions contemplated under the Entrusted Loan Master Agreement and its annual caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the transactions contemplated under the Entrusted Loan Master Agreement and its annual caps.

Yours faithfully,

Independent Board Committee

**Li Fat Chung**  
*Independent non-executive  
Director*

**Wong Lam Kit Yee**  
*Independent non-executive  
Director*

**Fung Man Yin, Sammy**  
*Independent non-executive  
Director*

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## LETTER FROM INDUSTRIAL SECURITIES

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*The following is the full text of the letter of advice from Industrial Securities to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 3201, 32/F  
Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

22 August 2014

*To: The Independent Board Committee and the Independent Shareholders  
of Founder Holdings Limited*

Dear Sirs,

### **ADVANCE TO AN ENTITY, MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION – ENTRUSTED LOAN MASTER AGREEMENT**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Entrusted Loan Master Agreement and the transactions contemplated thereunder, as well as the proposed annual caps for each of the three years ending 31 December 2016 (the “**Proposed Annual Caps**”) thereof, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 22 August 2014, 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.

Reference is made to the circular of the Company dated 17 November 2011 in respect of the continuing connected transactions contemplated under the 2011 Entrusted Loan Master Agreement entered into between the Company and Peking Founder for a term of three years from 1 January 2012 to 31 December 2014 in relation to the provision of short-term loans by the Group through a financial institution (to be designated by the parties and being an independent third party to the Company and its connected persons) to Peking Founder Group in the PRC. The Company has reviewed the annual caps under the 2011 Entrusted Loan Master Agreement and it is expected that the amount of the entrusted loans in the year 2014 to be provided by the Company is likely to be greater than originally estimated at the time entering into the 2011 Entrusted Loan Master Agreement. Further, the current term of the 2011 Entrusted Loan Master Agreement will expire on 31 December 2014. Therefore, the Company and Peking Founder entered into the Entrusted Loan Master Agreement on 28 July 2014, subject to the satisfaction of the conditions precedent set out in the Board Letter, to replace the 2011 Entrusted Loan Master Agreement for a term from the date of obtaining the Independent Shareholders’ approval to 31 December 2016.



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## LETTER FROM INDUSTRIAL SECURITIES

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As at the Latest Practicable Date, Peking Founder indirectly holds approximately 31.42% of the issued share capital of the Company. Thus, Peking Founder is a controlling shareholder and connected person of the Company under the Listing Rules. As such, the transactions contemplated under the Entrusted Loan Master Agreement will constitute continuing connected transactions (the “**Continuing Connected Transactions**”) of the Company pursuant to Chapter 14A of the Listing Rules. On the other hand, the provision of entrusted loans under the Entrusted Loan Master Agreement may also constitute (i) advance to an entity under Rule 13.13 of the Listing Rules; (ii) financial assistance provided by the Company not in the ordinary and usual course of business; and (iii) a major transaction under Chapter 14 of the Listing Rules. In addition, as one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Entrusted Loan Master Agreement exceeds 25%, the transactions contemplated under the Entrusted Loan Master Agreement will be subject to, inter alia, the reporting, announcement, Independent Shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules. Peking Founder and its respective associates will abstain from voting at the SGM in regards to the ordinary resolution in relation to the Entrusted Loan Master Agreement.

An Independent Board Committee comprising Mr. Li Fat Chung, Ms. Wong Lam Kit Yee and Mr. Fung Man Yin, Sammy (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on whether the Entrusted Loan Master Agreement and the transactions contemplated thereunder, as well as the Proposed Annual Caps are in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote. We, Industrial Securities (Hong Kong) Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading.

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## LETTER FROM INDUSTRIAL SECURITIES

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In formulating our opinion, we consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion, and we have discussed with the management of the Company so as to assess the fairness and reasonableness of the terms of the Entrusted Loan Master Agreement as well as the Proposed Annual Caps. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted any independent investigation into the business and affairs of the Company, Peking Founder or their respective subsidiaries or associates. 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 to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Annual Caps thereof, we have taken the following principal factors and reasons into consideration:

#### **A. Background and Reasons for entering into of the Entrusted Loan Master Agreement**

Peking Founder Group is principally engaged in the securities trading and brokerage and the information technology industry, including software and system development for the publishing sector and various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management.

The Group is principally engaged in software development and the provision of systems integration services relating to the media and non-media industries including financial institutions, enterprises and government departments. We are advised by the Company that the Group will provide entrusted loans under the Entrusted Loan Master Agreement to Peking Founder Group through its indirect wholly-owned subsidiary, Founder Electronics, which is engaged in several major areas including digital printing business, digital publication business, digital broadcasting business, font business, and public service software.

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## LETTER FROM INDUSTRIAL SECURITIES

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Since no member of the Group is a licensed financial institution, the Group is not authorized to carry out banking related businesses in the PRC and the provision of entrusted loans do not form part of the Group's business activities, therefore, we are of the view that the entering into of the Entrusted Loan Master Agreement and the Continuing Connected Transactions thereunder are not in the ordinary and usual course of business of the Group.

With reference to the circular of the Company dated 17 November 2011, the Company entered into the 2011 Entrusted Loan Master Agreement with Peking Founder on 1 November 2011 in relation to the provision of short-term loans by the Group through a financial institution to be designated by the parties and being an independent third party to the Company and its connected persons to Peking Founder in the PRC for a term of three years from 1 January 2012 to 31 December 2014.

As stated in the Board Letter, upon reviewing the annual caps under the 2011 Entrusted Loan Master Agreement, the Company expected the amount of entrusted loans to be provided by the Group to Peking Founder Group for the year 2014 is likely to be greater than the amount originally estimated at the time entering into the 2011 Entrusted Loan Master Agreement. As advised by the Company, as at the Latest Practicable Date, the outstanding amount of entrusted loans provided by the Group to Peking Founder Group amounted to RMB200 million, and the average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) for the six months ended 30 June 2014 amounted to approximately RMB208.77 million, representing approximately 97.93% of the existing 2014 annual cap of approximately RMB213.17 million.

In addition, the term of the 2011 Entrusted Loan Master Agreement will expire on 31 December 2014. We are advised by the management of the Company that the Group will continue to provide short-term loans to Peking Founder Group after 31 December 2014. As such, the Company entered into the Entrusted Loan Master Agreement with Peking Founder on 28 July 2014, subject to the satisfaction of the conditions precedent set out in the Board Letter, to replace the 2011 Entrusted Loan Master Agreement for a term from the date when the Independent Shareholders' approval is obtained and up to 31 December 2016. The Entrusted Loan Master Agreement specifies the terms and conditions of the Continuing Connected Transactions which are in essence a continuation of the 2011 Entrusted Loan Master Agreement.

As stated in the Board Letter, the Directors consider that the interest rate under the Entrusted Loan Master Agreement is favourable to the Group and the provision of the entrusted loans to Peking Founder Group could generate a higher return for the surplus cash of the Group. Taken into consideration the creditworthiness of Peking Founder Group and its sound historical financial performance, the Directors consider that the entrusted loan arrangement will bring in more value to the shareholders of the Company as a whole by enhancing the monetary return of the Group's surplus funds generated from operations.

We have obtained and reviewed the separate entrusted loan agreements that were entered into between the Group, Peking Founder Group and the designated financial institution upon requests by Peking Founder pursuant to the terms and conditions of the 2011 Entrusted Loan Master Agreement as well as the information in respect of the interests

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## LETTER FROM INDUSTRIAL SECURITIES

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received and the financial charges incurred from the Company. During the period from 1 January 2012 to the Latest Practicable Date, there were ten entrusted loans provided by the Group to Peking Founder Group, which ranged from RMB40 million to RMB100 million each with interest rate ranged from 6.44% to 7.015% per annum. The expected total interest to be derived from the entrusted loans during the period from 1 January 2012 to 31 December 2014 amounts to approximately RMB24.08 million, in aggregate, which represents an expected financial return of approximately 3.26% after deducting all charges incurred for all entrusted loans provided by the Group to Peking Founder Group during the period from 1 January 2012 to 31 December 2014. As advised by the Company, Founder Electronics currently enjoys a 3-month fixed deposit rate at 2.86% per annum, or a saving deposit rate at 0.385% per annum which are relatively lower than the expected financial return under the 2011 Entrusted Loan Master Agreement. Therefore, we concur with the Directors' view that the entrusted loan arrangement can bring in more value to the Shareholders as a whole.

On the other hand, we have obtained and reviewed the internal financial information in respect of the net cash inflow from operations of Founder Electronics for the latest three financial years from the Company, we noted that Founder Electronics recorded a substantial growth on the net cash inflow from operations for the year 2013 when compared with that for the year 2012. The management of the Company confirmed that, in case Founder Electronics suffers financial difficulty, the Group would utilize the cash saving of the Group to finance the daily operation of Founder Electronics. According to the annual report of the Group for the year ended 31 December 2013 (the "**2013 Annual Report**"), the cash and bank balances of the Group amounted to approximately HK\$561.45 million (equivalent to approximately RMB451.69 million). In addition, as stated in the Board Letter, as at 30 June 2014, the Group has cash and bank balance of HK\$385.7 million with unutilised banking facilities available in the amount of HK\$575.3 million and HK\$34.0 million in Hong Kong and the PRC, respectively.

We are advised by the management of the Company that the Group adopts conservative treasury policies and tightly controls over its cash and risk management. In view of this, the Group would only utilize its cash held in the PRC and denominated in RMB to provide entrusted loans to Peking Founder Group in the PRC. We are also advised by the management of the Company that the Group will not bear additional liquidity risks for the Continuing Connected Transactions. If the Group's cash held in the PRC and denominated in RMB cannot meet the demand of entrusted loans from Peking Founder Group, the Group may use its unutilized banking facilities in the PRC to sub-lend to Peking Founder Group whenever (i) the financial return from the provision of entrusted loans is higher than the cost of borrowing; (ii) the terms of related banking facilities can match with the terms of entrusted loans, including draw-down date and repayment date; and (iii) there is no other alternative purpose for such unutilized banking facilities, for example, investment opportunities with higher investment return than those of entrusted loans available to the Group (collectively, "**Loans Conditions**"). As confirmed by the management of the Company, the Group has not utilized its banking facilities for investment purposes in the past given the relatively higher risk of other financial products. In addition, the Group will review and consider other investment options every time before it lends to Peking Founder under the Entrusted Loan Master Agreement. Under the Entrusted Loan Master Agreement, the Group is not obligated to make entrusted loans to Peking Founder Group and would only do so if the Loan Conditions can be satisfied. We have searched and noted from certain

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## LETTER FROM INDUSTRIAL SECURITIES

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local newspapers that, there was negative news regarding the defaults of certain wealth management products in the PRC currently, as such, we concur with the Directors' view that there will have a relatively higher risk of investing in other financial products.

We have obtained and reviewed the credit rating report of Peking Founder issued by China Lianhe Credit Rating Co., Ltd. ("**China Lianhe**") dated 18 June 2014 provided by the Company, from which China Lianhe declared that it is independent from Peking Founder, the principal long-term credit rating of Peking Founder was maintained as "AA+", which is the second highest class in this regard. China Lianhe was of the opinion that Peking Founder had good capability for loan repayment. In addition, as confirmed by the management of the Company, for the past ten entrusted loans provided to Peking Founder Group under the 2011 Entrusted Loan Master Agreement, seven out of ten were fully settled within six months upon the dates of the respective entrusted loan agreements in accordance with the terms of the 2011 Entrusted Loan Master Agreement, the remaining three entrusted loans are still in force.

In addition, having considered the disclosures appeared in the sections of Appendix I of the Circular headed "Working Capital" and "Financial Effect of the Entrusted Loan Master Agreement" respectively, and the abovementioned, we concur with the Directors' view that Peking Founder Group has established a good repayment record with a relatively strong creditworthiness, and the provision of entrusted loans to Peking Founder Group by the Group will not result in any material adverse impact on the financial position of the Group.

As advised by the management of the Company, the Group will review the financial statements, repayment history, and credit report of Peking Founder Group before entering into formal entrusted loan agreements. As a result, the Group can evaluate the latest financial performance and position of Peking Founder Group before providing entrusted loans to Peking Founder Group, which allow the Group effectively control the default risks arising from the provision of entrusted loans to Peking Founder Group. We have reviewed the management accounts of Peking Founder Group for the year ended 31 December 2013 provided by the Company, and we are of the view that Peking Founder has a fairly sound financial position for the year 2013.

Having considered (i) the business nature of the Group and Peking Founder; (ii) the almost fully utilized existing 2014 annual cap; (iii) the higher financial return from the provision of entrusted loans by the Group to Peking Founder Group compared with that generated from bank deposits; (iv) the surplus cash and banking facilities of the Group; (v) the treasury policies and risk management controls of the Group; (vi) the financial position of the Group and Peking Founder; and (vii) the credit rating and repayment track record of Peking Founder, we are of the view that the entering into of the Entrusted Loan Master Agreement is fair and reasonable though not in the usual and ordinary course of business of the Group, and is in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM INDUSTRIAL SECURITIES

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### **B. Principal Terms of the Entrusted Loan Master Agreement**

We have obtained the 2011 Entrusted Loan Master Agreement and the Entrusted Loan Master Agreement from the Company, and we have reviewed the terms stated therein respectively. As confirmed by the Directors, the terms of the Entrusted Loan Master Agreement, including the interest rate applicable, were agreed by the parties after arm's length negotiations. We have considered the following aspects for assessing the fairness and reasonableness of the terms of the Entrusted Loan Master Agreement:

- (i) the principal terms of the Entrusted Loan Master Agreement are materially the same as the principal terms of the 2011 Entrusted Loan Master Agreement, except for the agreement period and respective amounts of the proposed annual caps;
- (ii) the Entrusted Loan Master Agreement is conditional upon, including but not limited to, obtaining the Independent Shareholders' approval at the SGM, and shall become effective from the date on which Independent Shareholders' approval is obtained and expire on 31 December 2016;
- (iii) the entrusted loans provided to Peking Founder are repayable within six months from the date of drawing of the relevant entrusted loan. If Peking Founder Group fails to repay the outstanding amount under the relevant entrusted loan agreements, Peking Founder Group shall be liable to pay, on a daily basis, a default interest at a rate of 0.02% of the total outstanding loan amount, until all of the principal amount, the interests together with other applicable charges and/or fees are fully repaid;
- (iv) if any of the following matters arise, the entrusted loans are repayable forthwith, unless otherwise waived by the Company in writing:
  - Peking Founder Group provides false balance sheets, profit and loss statements and other financial statements or provides such statements which withhold material facts;
  - the representations and warranties and undertakings made and given by Peking Founder under the Entrusted Loan Master Agreement or those made and given by the borrower pursuant to the relevant entrusted loan agreement proves to be untrue or misleading;
  - in the reasonable opinion of the Company, there has been a serious deterioration in the operating and financial position of Peking Founder or of the borrower pursuant to the relevant entrusted loan agreement;
  - Peking Founder or the borrower pursuant to the relevant entrusted loan agreement is in breach of its obligations as borrower or guarantor under any other loan agreements;

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## LETTER FROM INDUSTRIAL SECURITIES

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- Peking Founder or the borrower pursuant to the relevant entrusted loan agreement fails to make a repayment arrangement or debt restructuring plan to the satisfaction of the trustee when it is undergoing a merger, split or share reform;
  - Peking Founder or the borrower pursuant to the relevant entrusted loan agreement is insolvent, dissolved, closed down, revoked, suspended and deregistered;
  - Peking Founder ceases to be a controlling shareholder (as defined in the Listing Rules) of the Company; or
  - Peking Founder fails to honour its undertaking or other obligations under the Entrusted Loan Master Agreement;
- (v) the interest rate of the entrusted loans under the Entrusted Loan Master Agreement is determined with reference to the prevailing benchmark RMB lending rate for loan period of six months offered by PBOC plus 15% of such rate. According to the official website of PBOC, the current benchmark RMB lending rate for loan period of six months offered by PBOC is 5.6%, so for illustrative purpose only, the interest rate of the entrusted loans would be 6.44% per annum, which is higher than the deposit rates currently available to the Group; and
- (vi) the Group is not obligated to provide the entrusted loans requested by Peking Founder Group and would only do so if the Loan Conditions can be satisfied. The Group can decide, whether to provide, and if provide, the amount of entrusted loans.

In view of the above, we are of the view that the terms of the Entrusted Loan Master Agreement are on normal commercial terms, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

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**LETTER FROM INDUSTRIAL SECURITIES**

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**C. The Proposed Annual Caps**

The table below shows (i) the historical figures of the average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) for each of the two years ended 31 December 2013 and six months ended 30 June 2014; (ii) the existing annual caps for each of the three years ending 31 December 2014 under the 2011 Entrusted Loan Master Agreement; (iii) the utilization rates of the existing annual caps for each of the two years ended 31 December 2013 and six months ended 30 June 2014; and (iv) the proposed annual caps for each of the three years ending 31 December 2016 under the Entrusted Loan Master Agreement:

	Year ended 31 December 2012	Year ended 31 December 2013	Six months ended 30 June 2014	Year ending 31 December 2014	Year ending 31 December 2015	Year ending 31 December 2016
	<i>RMB'000</i>					
Historical entrusted loan amounts	103,546	193,748	208,766	N/A	N/A	N/A
Existing annual caps	199,000	205,965	N/A	213,174	N/A	N/A
Proposed Annual Caps	N/A	N/A	N/A	320,000	331,200	342,792
Utilization Rates	52.03%	94.07%	97.93% (existing annual cap)	N/A	N/A	N/A

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have obtained and reviewed the internal financial information of Founder Electronics for the three years ended 31 December 2013 and the six months ended 30 June 2014 (“**Financial Information**”), being the subsidiary of the Group to provide the entrusted loans, and discussed with the management of the Company regarding the underlying basis and assumptions in projecting the Proposed Annual Caps.

We noted that the proposed annual cap for the year 2014 under the Entrusted Loan Master Agreement represents an increase of approximately 50.11% when compared with the existing annual cap for the year 2014 under the 2011 Entrusted Loan Master Agreement. As stated in the Board Letter and confirmed by the Company, the Proposed Annual Caps, including the proposed annual cap for the year 2014, are determined based on the average cash and bank balance and average total monthly net profit/loss of Founder Electronics for the five months ended 31 May 2014 (the “**Surplus Cash**”). The Proposed Annual Caps are given 3.5% growth each year due to an expected annual increase in the cash and bank balance of Founder Electronics from years 2014 to 2016.



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## LETTER FROM INDUSTRIAL SECURITIES

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Having considered the followings:

- (i) We have reviewed each of the average cash and bank balance and average total monthly net profit/loss of Founder Electronics for the five months ended 31 May 2014 provided by the Company, we consider the Surplus Cash amount is well above the Proposed Annual Caps.
- (ii) According to the announcement of the Company dated 18 March 2013, the circular of the Company dated 16 April 2013 and the 2013 Annual Report, the Group entered into the intellectual properties transfer agreement and patents license agreement with China Digital Video (Beijing) Limited on 18 March 2013. As confirmed by the Company, by transferring the title and interest in its patents, patent application rights, trademarks and software copyrights to China Digital Video (Beijing) Limited, Founder Electronics received approximately RMB60 million in cash in 2013. As a result, it has increased the Surplus Cash which is available for the provision of entrusted loans under the Entrusted Loan Master Agreement.
- (iii) The historical figures of the average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) have increased from approximately RMB103.55 million for the year ended 31 December 2012 to approximately RMB208.77 million for the six months ended 30 June 2014, representing an increase of approximately 101.61%.
- (iv) The average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) for the six months ended 30 June 2014 amounted to approximately RMB208.77 million, representing approximately 97.93% of the annual cap for the year 2014 under the 2011 Entrusted Loan Master Agreement of approximately RMB213.17 million.
- (v) As stated in the Board Letter, the Group has also taken into consideration the growth of scale of the Group's inkjet printing business for determining the Proposed Annual Caps. According to the Financial Information, the revenue of the inkjet printing business of Founder Electronics had a compound annual growth rate of approximately 17.16% for the three years ended 31 December 2013. As advised by the Company, the expanding inkjet printing business led to higher credit limits offered by its suppliers. Therefore, the pressure on the liquidity requirements of Founder Electronics will reduce and hence the level of cash and bank balance of Founder electronics will increase. We have obtained and reviewed the documents in respect of a higher credit limit offered by the suppliers of the Group for the year 2014, which are provided by the Company in a random sample basis. In view of the above, we consider the projection of 3.5% annual increase of the cash and bank balance of Founder Electronics from 2014 to 2016 is justifiable.

We are of the view that the Proposed Annual Caps are reasonably determined.

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## LETTER FROM INDUSTRIAL SECURITIES

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### D. Listing Rules Implication

As at the Latest Practicable Date, the Company is owned as to approximately 31.42% of the issued Shares by Founder Information, which is a subsidiary of Peking Founder. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Entrusted Loan Master Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

On the other hand, the provision of entrusted loans under the Entrusted Loan Master Agreement may also constitute (i) advance to an entity under Rule 13.13 of the Listing Rules; (ii) financial assistance provided by the Company not in the ordinary and usual course of business; and (iii) a major transaction under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Proposed Annual Caps exceeds 25%, the transactions contemplated under the Entrusted Loan Master Agreement will be subject to, inter alia, the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules. Founder Information, Professor Xiao Jian Guo and Mr. Fang Zhong Hua will abstain from voting at the SGM in regards to the ordinary resolution in relation to the Entrusted Loan Master Agreement.

### RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that (i) the entering into of the Entrusted Loan Master Agreement is fair and reasonable though not in the usual and ordinary course of business of the Group, and is in the interests of the Group and the Shareholders as a whole; (ii) the terms of the Entrusted Loan Master Agreement are on normal commercial terms, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole; and (iii) the Proposed Annual Caps are reasonably determined, and are fair and reasonable so far as the Company and 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 relevant resolution to be proposed at the SGM to approve the Entrusted Loan Master Agreement, the Continuing Connected Transaction contemplated thereunder and the Proposed Annual Caps thereof.

Yours faithfully,  
For and on behalf of  
**Industrial Securities (HK) Capital Limited**  
**Edmond Choy**  
*Executive Director*

**1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP**

The Company is required to set out in this circular the financial information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2011 has been set out in pages 26 to 113 of the annual report 2011 of the Company which was posted on 27 April 2012 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2012 has been set out in pages 29 to 115 of the annual report 2012 of the Company which was posted on 24 April 2013 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2013 has been set out in pages 29 to 129 of the annual report 2013 of the Company which was posted on 16 April 2014 on the Stock Exchange's website (<http://www.hkexnews.hk>).

**2. INDEBTEDNESS**

At the close of business on 30 June 2014, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Group had interest-bearing bank borrowings of approximately HK\$182.1 million which comprised unsecured bank borrowings of approximately HK\$75.1 million, secured bank loans of approximately HK\$104.4 million and secured bank overdrafts of approximately HK\$2.6 million. The above unsecured bank borrowings included bank loans of approximately HK\$74.2 million guaranteed by Peking Founder, a substantial shareholder of the Company, and a bank loan of approximately HK\$0.9 million guaranteed by the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme. The secured loans and overdrafts were secured by pledge of certain of the Group's investment properties, land and buildings, time deposits and certain of the time deposits of a subsidiary of Peking Founder.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 30 June 2014, any loan capital, issued and outstanding, or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, material obligations under hire purchase contracts or finance leases, guarantees or other material contingent liabilities.

**3. WORKING CAPITAL**

The Directors are of the opinion that, taking into account of the Group's available financial resources including the internally generated fund, the Group has sufficient working capital for its present requirements, that is for at least twelve months from the date of this circular.

**4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

In the coming financial year, the Group will continue to be engaged in the software development and the provision of systems integration services in the media and non-media industries including financial institutions, enterprises and government departments.

The management will closely monitor changes in the PRC's economy and its IT market. The Group will continue the development of innovative software and solutions and provide our customers with more cost-effective products and solutions to meet our customers' demands for enhancing their competitiveness. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and maximize shareholders' value.

**5. FINANCIAL EFFECT OF THE ENTRUSTED LOAN MASTER AGREEMENT**

Taking into account the interest income which could derive from the entrusted loans as contemplated under the Entrusted Loan Master Agreement and that the interest income from Peking Founder would cover all necessary expenses to be incurred by the Group (including the interest expense if the entrusted loan is funded by the Group's interest-bearing bank borrowings), the Company expects to have positive effect on its earnings as well as earning per share for the Shareholders.

If the Group is to fund the entrusted loans by its bank borrowings, its assets and liabilities will be increased by the same amount of such borrowings at the time when such borrowings are obtained. Save for the aforesaid, there would be no material effect on the Group's assets and liabilities as a result of the transactions contemplated under the Entrusted Loan Master Agreement.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### a) Directors' Interests

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

*Long positions in ordinary shares of the Company:*

<b>Name of director</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Mr Fang Zhong Hua	Directly beneficially owned	2,955,200	0.25
Professor Xiao Jian Guo	Directly beneficially owned	2,955,200	0.25
Professor Yang Bin	Directly beneficially owned	2,955,200	0.25
Ms Yi Mei	Directly beneficially owned	2,955,200	0.25

*Long Positions in share options of the Company:*

<b>Name of directors</b>	<b>Number of options directly beneficially owned</b>
Mr Fang Zhong Hua	4,432,800
Professor Xiao Jian Guo	4,432,800
Professor Yang Bin	4,432,800
Ms Yi Mei	<u>4,432,800</u>
	<u><u>17,731,200</u></u>

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be 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 recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**b) Substantial Shareholders' Interests**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or 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 who was, directly or indirectly,

interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

*Long Positions:*

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北大資產經營有限公司 (Peking University Asset Management Company Limited*)	1	Through a controlled corporation	367,179,610	31.66
Peking Founder	2	Through a controlled corporation	367,179,610	31.66
Founder Information		Directly beneficially owned	367,179,610	31.66

\* For identification purpose only

*Notes:*

1. Peking University Asset Management Company Limited was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.
2. Peking Founder was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Founder Information.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or 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 who was, directly or indirectly, interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

### 3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up, 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.

#### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

#### **5. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into a service contract with any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### **6. MATERIAL CHANGES**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up.

#### **7. MATERIAL LITIGATION**

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

#### **8. EXPERT AND CONSENT**

The following are the qualifications of the professional adviser who has given the Company opinions or provided advice referred to or contained in this circular:

Industrial Securities a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO.

As at the Latest Practicable Date, Industrial Securities had no shareholding interest, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.



As at the Latest Practicable Date, Industrial Securities did not have any interest, direct or indirect, in any assets which since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group.

Industrial Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of the text of its letter and/or the references to its name in the form and context in which they respectively appear.

## 9. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date:

- (a) the intellectual properties transfer agreement entered into among Peking Founder, Beijing Founder Electronics Co., Ltd.\* (北京北大方正電子有限公司) (“Founder Electronics”) and China Digital Video (Beijing) Limited\* (新奧特(北京)視頻技術有限公司) (“China Digital Video”) on 18 March 2013, for the transfer of its title and interest in the trademarks and the software copyrights, to China Digital Video at an aggregate consideration of RMB101,475,970, out of which RMB54,975,970, representing approximately 54.2% of the consideration, is payable to Founder Electronics; and
- (b) the patents licence agreement entered into among Peking Founder, Founder Electronics, Peking University and China Digital Video on 18 March 2013, to grant the exclusive rights to use the patents and patent application rights for the entire validity period of the patents and patent application rights to China Digital Video at a consideration of RMB7,000,000, out of which RMB3,000,000, representing approximately 42.9% of the consideration, is payable to Founder Electronics.

\* *For identification purpose only*

## 10. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

The Company Secretary of the Company is Ms Tang Yuk Bo, Yvonne, FCS, FCIS.

The registered office of the Company is situated at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business in Hong Kong is situated at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The transfer office of the Company is situated at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including 10 September 2014, the date of the SGM:

- (i) the bye-laws of the Company;
- (ii) the annual reports of the Company for the two years ended 31 December 2013;
- (iii) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (iv) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular;
- (v) the letter from Industrial Securities, the text of which is set out on pages 14 to 24 of this circular; and
- (vi) the letter of consent from Industrial Securities referred to in the paragraph headed “Expert” in this appendix above.

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## NOTICE OF SPECIAL GENERAL MEETING

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*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00418)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Founder Holdings Limited (the “Company”) will be held at 10 a.m. on Wednesday, 10 September 2014 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:**

- (a) The Entrusted Loan Master Agreement (as defined in the circular of the Company dated 22 August 2014) be and is hereby approved;
- (b) The proposed annual caps in relation to the transactions contemplated under the Entrusted Loan Master Agreement for the three years ending 31 December 2016 be and are hereby approved; and
- (c) Any one Director be and is hereby authorised 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 Entrusted Loan Master Agreement and the transactions contemplated thereunder.”

By Order of the Board  
**Founder Holdings Limited**  
**Fang Zhong Hua**  
*Chairman*

Hong Kong, 22 August 2014

*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 instead of him/her. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. 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.

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## NOTICE OF SPECIAL GENERAL MEETING

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3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
4. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Peking University Founder Information Industry Group Co., Ltd., Professor Xiao Jian Guo and Mr Fang Zhong Hua 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 poll.

\* *For identification purpose only*