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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 transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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**(1) CONNECTED TRANSACTIONS:  
THE INTELLECTUAL PROPERTIES TRANSFER AGREEMENT  
AND  
THE PATENTS LICENCE AGREEMENT;  
AND  
(2) PROPOSED RE-ELECTION OF DIRECTORS**

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



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A letter from the board of directors of Founder Holdings Limited is set out on pages 5 to 12 of this circular. A letter from the Independent Board Committee of the Company is set out on pages 13 to 14 of this circular. A letter from Industrial Securities (HK) Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 26 of this circular.

A notice convening the special general meeting to be held at 3:00 p.m. on 3 May 2013 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 47 to 48 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

16 April 2013



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## DEFINITIONS

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

“Announcement”	the announcement made by the Company dated 18 March 2013;
“associates”	has the meaning as ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“China Digital Video”	China Digital Video (Beijing) Limited* (新奧特 (北京) 視頻技術有限公司), a company established under the laws of the PRC;
“Company”	Founder Holdings Limited (方正控股有限公司*), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“connected person”	has the same meaning as ascribed to it under the Listing Rules;
“controlling shareholder”	has the same meaning as ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“First Patents and Patent Application Rights”	5 patents and 37 rights to the applications for the patents to be transferred under the Intellectual Properties Transfer Agreement;
“Founder Electronics”	Beijing Founder Electronics Co., Ltd.* (北京北大方正電子有限公司), a company established under the laws of the PRC and an indirect wholly-owned subsidiary 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 PRC;

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee of the Company comprising all independent non-executive Directors formed for the purpose of considering the terms of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement and advising and making recommendations to the Independent Shareholders as to how to vote at the SGM in respect of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement;
“Independent Shareholders”	Shareholders other than Peking Founder and its associates;
“Industrial Securities”	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 relation to the Intellectual Properties Transfer Agreement and the Patents Licence Agreement;
“Intellectual Properties Transfer Agreement”	the intellectual properties transfer agreement entered into among Peking Founder, Founder Electronics and China Digital Video on 18 March 2013;
“Latest Practicable Date”	11 April 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“LCH”	LCH (Asia-Pacific) Surveyors Limited, the independent professional surveyor;
“Licence”	the grant of the exclusive rights to use the Second Patents and Patent Application Rights under the Patents Licence Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Patents Licence Agreement”	the patents licence agreement entered into among Peking Founder, Founder Electronics, Peking University and China Digital Video on 18 March 2013;

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## DEFINITIONS

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“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 liabilities and the controlling shareholder of the Company, which holds approximately 32.49% of the issued share capital of the Company;
“Peking Founder Group”	Peking Founder and its subsidiaries;
“Peking University”	Peking University (北京大學), a major research university and the first established modern national university located in Beijing, the capital city of the PRC;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“Second Patents and Patent Application Rights”	17 patents and 19 rights to the applications for the patents to be licensed for use under the Patents Licence Agreement;
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve, if thought fit, the Intellectual Properties Transfer Agreement and the Patents Licence Agreement and the re-election of the retiring Directors;
“Shareholder(s)”	holder(s) of ordinary shares of HK\$0.1 each in the issued share capital of the Company;
“Software Copyrights”	13 computer software copyrights to be transferred under the Intellectual Properties Transfer Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the same meaning ascribed to it under the Listing Rules;
“Trademarks”	3 trademarks to be transferred under the Intellectual Properties Transfer Agreement;

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## DEFINITIONS

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“Transfer” the transfer of the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights under the Intellectual Properties Transfer Agreement; and

“%” per cent.

*For illustrative purpose only, HK\$ is converted into RMB at an exchange rate of HK\$1 = RMB0.80 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  
Mr Li Sheng Li  
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

*Principal place of business  
in Hong Kong:*

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

16 April 2013

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTIONS:  
THE INTELLECTUAL PROPERTIES TRANSFER AGREEMENT  
AND  
THE PATENTS LICENCE AGREEMENT;  
AND  
(2) PROPOSED RE-ELECTION OF DIRECTORS**

**1. INTRODUCTION**

Reference is made to the Announcement in relation to the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement.

The purpose of this circular is to provide you with, among other things, (i) details of the Intellectual Properties Transfer Agreement; (ii) details of the Patents Licence Agreement; (iii) the details of the re-election of Mr Li Sheng Li and Ms Liu Yu Xiao as executive Directors; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement; (v) a letter of advice from Industrial Securities to the

\* For identification only

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## LETTER FROM THE BOARD

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Independent Board Committee and the Independent Shareholders in respect of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement; and (vi) a notice convening the SGM to the Shareholders.

### 2. THE INTELLECTUAL PROPERTIES TRANSFER AGREEMENT

#### A. Background

On 18 March 2013, Peking Founder and Founder Electronics entered into the Intellectual Properties Transfer Agreement with China Digital Video pursuant to which, subject to the approval by the Independent Shareholders at the SGM and the approval by the State-owned Assets Administration Department of the PRC, (i) Peking Founder and Founder Electronics, as joint owners of the First Patents and Patent Application Rights, conditionally agreed to jointly transfer all their title and interest in the First Patents and Patent Application Rights; and (ii) Founder Electronics conditionally agreed to transfer all its title and interest in the Trademarks and the Software Copyrights, to China Digital Video at an aggregate consideration of RMB101,475,970 (equivalent to approximately HK\$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK\$68,720,000), representing approximately 54.2% of the consideration, is payable to Founder Electronics.

#### B. Principal Terms of the Intellectual Properties Transfer Agreement

**Date:**

18 March 2013

**Parties:**

- (1) Peking Founder as one of the two transferors;
- (2) Founder Electronics as the remaining transferor; and
- (3) China Digital Video as the transferee.

As at the Latest Practicable Date, Peking Founder, the controlling shareholder of the Company, holds 367,179,610 ordinary shares of the Company, representing approximately 32.49% of the total issued share capital of the Company and therefore is a connected person of the Company under the Listing Rules. Peking Founder has developed into a diversified holding group with business operations in fields such as IT, medical and health care/pharmacy, real estate, finance and trading of bulk commodities. Peking Founder Group is one of the model enterprises to interpret the concept of innovation of the Chinese government as “an enterprise, as the centre and with a market-oriented mind, integrates the production and research and development”, and also is one of the model enterprises that conscientiously assumes the corporate social responsibility.

Founder Electronics is an indirect wholly-owned subsidiary of the Company.



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## LETTER FROM THE BOARD

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Mr Zheng Fu Shuang is interested in approximately 43.78% equity interest in China Digital Video. He is also a director and a substantial shareholder of EC-Founder (Holdings) Company Limited, a subsidiary of Peking Founder. To the best knowledge of the Directors' knowledge, information and belief having made all reasonable enquiry, except for Mr Zheng Fu Shuang as disclosed above, each of China Digital Video and its remaining ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company. China Digital Video is principally engaged in the provision of products with self-owned intellectual property rights such as graphic and text production system, non-linear editing system, network production and broadcasting system, and virtual studio system. It is also engaged in the provision of various types of professional digital media content production and operation solutions and technical services such as new media application, data media services, broadcasting technology services, and the building and maintenance of the International Broadcast Centre.

### **Subject Assets:**

Pursuant to the Intellectual Properties Transfer Agreement, (i) Peking Founder and Founder Electronics conditionally agreed to jointly transfer all their title and interest in the First Patents and Patent Application Rights; and (ii) Founder Electronics conditionally agreed to transfer all its title and interest in the Trademarks and the Software Copyrights, to China Digital Video. The First Patents and Patent Application Rights comprise 5 patents and 37 rights to the application, for the patents in relation to data transmission and processing, document releasing and broadcasting. The Trademarks comprise of 3 trademarks registered in the PRC, namely Founder Wuyou, Founder Tianyi and Founder Jing Yu, whereas the Software Copyrights comprise of 13 computer software copyrights in relation to data transmission and processing, document releasing, broadcasting and non-linear editing. The carrying value of the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights as stated in the Group's unaudited accounts as at 30 June 2012 is nil.

### **Consideration:**

The consideration for the Transfer is RMB101,475,970 (equivalent to approximately HK\$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK\$68,720,000), representing approximately 54.2% of the consideration, is payable to Founder Electronics. Such consideration has been arrived at after arm's length negotiations between the parties, taking into account that the transferors of the patents are entitled to share a portion of the consideration based on their respective contribution to the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights.

Pursuant to the Intellectual Properties Transfer Agreement, China Digital Video had paid to Founder Electronics the first instalment of RMB8,475,970 (equivalent to approximately HK\$10,595,000), within 2 business days from the date of the Intellectual Properties Transfer Agreement and had paid to each of

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## LETTER FROM THE BOARD

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Peking Founder and Founder Electronics the second instalment of RMB25,000,000 (equivalent to approximately HK\$31,250,000) within 7 business days from the date of the agreement. The balance of the consideration shall be paid within 5 business days from the date that the approval of the Independent Shareholders and the State-owned Assets Administration Department of the PRC for the Transfer are obtained.

### 3. THE PATENTS LICENCE AGREEMENT

#### A. Background

On 18 March 2013, Peking Founder, Founder Electronics and Peking University entered into the Patents Licence Agreement with China Digital Video, pursuant to which, subject to the approval by the Independent Shareholders at the SGM and the State-owned Assets Administration Department of the PRC, Peking Founder, Founder Electronics and Peking University, as joint owners of the Second Patents and Patent Application Rights, conditionally agreed to grant the exclusive rights to use the Second Patents and Patent Application Rights for the entire validity period of the Second Patents and Patent Application Rights to China Digital Video at a consideration of RMB7,000,000 (equivalent to approximately HK\$8,750,000), out of which RMB3,000,000 (equivalent to approximately HK\$3,750,000), representing approximately 42.9% of the consideration, is payable to Founder Electronics.

#### B. Principal Terms of the Patents Licence Agreement

**Date:**

18 March 2013

**Parties:**

- (1) Peking Founder as one of the three licensors;
- (2) Founder Electronics as one of the three licensors;
- (3) Peking University as the remaining licensor; and
- (4) China Digital Video as the licensee.

Peking University is interested in 100% equity interest in Peking University Asset Management Company Limited, which is in turn interested in 70% equity interest in Peking Founder. Therefore, Peking University is a connected person of the Company under the Listing Rules. Peking University provides tertiary education in Beijing, the PRC.

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## LETTER FROM THE BOARD

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### **Subject Assets:**

Pursuant to the Patents Licence Agreement, Peking Founder, Founder Electronics and Peking University, as the joint owners of the Second Patents and Patent Application Rights, conditionally agreed to grant the exclusive rights to use the Second Patents and Patent Application Rights for the entire validity period of the Second Patents and Patent Application Rights to China Digital Video. The Second Patents and Patent Application Rights include 17 patents and 19 rights to the applications for the patents in relation to broadcasting and data transmission and processing and their carrying value as stated in the Group's unaudited accounts as at 30 June 2012 is nil.

### **Consideration:**

The consideration for granting the exclusive rights to use the Second Patents and Patent Application Rights is RMB7,000,000 (equivalent to approximately HK\$8,750,000), out of which RMB3,000,000 (equivalent to approximately HK\$3,750,000), representing approximately 42.9% of the consideration, is payable to Founder Electronics. China Digital Video shall pay such consideration within 15 business days from the date that the approval of the Independent Shareholders and the State-owned Assets Administration Department of the PRC for the Licence are obtained. Such consideration has been arrived at after arm's length negotiations between the parties after taking into account that the licensors of the patents are entitled to share a portion of the consideration based on their respective contribution to the Second Patents and Patent Application Rights.

#### **4. REASONS FOR AND BENEFITS OF THE TRANSFER AND THE LICENCE**

Founder Electronics is an indirect wholly-owned subsidiary of the Company. Previously, it was engaged in several major areas, including digital printing business, digital publication business, digital broadcasting business and font business. However, in view of the loss-making results for the digital broadcasting business of Founder Electronics for the previous two years and the increasing competition in digital broadcasting industry, the Directors are of the view that it is in the interest of Founder Electronics to discontinue its digital broadcasting business so that it can focus on its digital printing and digital publication businesses, font business and other emerging business. The First Patents and Patent Application Rights, the Second Patents and Patent Application Rights, the Trademarks and the Software Copyrights form the major part of the assets for the digital broadcasting business. The Directors are of the view that the Transfer and the Licence enable the Group to dispose of such assets at reasonable prices. The proceeds for the Transfer and the Licence will be used by the Group as the funds for developing and cultivating core potential business in order to explore more niche market opportunities for the Group.

The Directors expect that the Group would record unaudited gains (before deducting any professional fees) of approximately HK\$68,720,000 and HK\$3,750,000 as a result of the Transfer and the Licence respectively. Such gains are determined by the consideration to be received by the Group under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement respectively.

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## LETTER FROM THE BOARD

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In view of the above and having considered the terms of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement, the Directors (including the independent non-executive Directors who have received and considered the advice from Industrial Securities) consider that both the Transfer and the Licence are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

As Professor Xiao Jian Guo is a director and the chief technical officer of Peking Founder, he has abstained from voting on the Board's resolution approving the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement. No other Director was considered to have a material interest in the Intellectual Properties Transfer Agreement or the Patents Licence Agreement.

### **5. LISTING RULES IMPLICATION**

As at the Latest practicable Date, Peking Founder is the controlling shareholder of the Company with a shareholding interest of approximately 32.49% in the Company and therefore a connected person of the Company under the Listing Rules. Further, Peking University is interested in 100% equity interest in Peking University Asset Management Company Limited, which is in turn interested in 70% equity interest in Peking Founder. Therefore, Peking University is also a connected person of the Company under the Listing Rules. In view of this, each of the Transfer and the Licence constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios as aggregated in respect of the Transfer and the Licence are more than 5% and the aggregate consideration exceeds HK\$10 million, the Transfer and the Licence as aggregated constitutes non-exempt connected transactions of the Company subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **6. RE-ELECTION OF THE RETIRING DIRECTORS**

Reference is made to the announcement of the Company dated 2 April 2013 in relation to, among other matters, the appointment of Mr Li Sheng Li and Ms Liu Yu Xiao as executive Directors. In accordance with paragraph A4.2 of Appendix 14 to the Listing Rules, Mr Li Sheng Li and Ms Liu Yu Xiao will retire as Directors at the SGM and, being eligible, offer themselves for re-election. Resolutions for re-electing Mr Li Sheng Li and Ms Liu Yu Xiao will be proposed at the SGM. Biographical details of Mr Li Sheng Li and Ms Liu Yu Xiao are set out in the Appendix II to this circular.

### **7. SGM**

A notice convening the SGM to be held at 3:00 p.m., on 3 May 2013 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 47 to 48 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions in relation to (i) the Intellectual Properties Transfer Agreement and the Patents Licence Agreement and (ii) re-election of the retiring Directors.

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## LETTER FROM THE BOARD

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Peking Founder together with its associates who altogether held 367,179,610 issued shares of the Company and controlled the voting rights of such shares, representing approximately 32.49% of the issued share capital of the Company as at the Latest Practicable Date, and all parties involved or interested in the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are required to abstain from voting with respect to the resolution for approving the Intellectual Properties Transfer Agreement and the Patents Licence Agreement.

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.

### **8. RECOMMENDATIONS**

The Independent Board Committee, which comprises all three independent non-executive Directors, has been established to advise the Independent Shareholders in connection with the terms of the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement.

Industrial Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders respectively on the Intellectual Properties Transfer Agreement and the Patents Licence Agreement. The Independent Board Committee, having taken into account the advice of Industrial Securities, is of the view that the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are fair and reasonable and 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 relevant resolution in relation to the approval of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement set out in the notice of SGM enclosed to this circular.

The Directors also consider that the proposal for the re-election of the retiring Directors are in the interests of the Company and the Shareholders as a whole and accordingly, recommend the Shareholders to vote in favour of the relevant resolution in relation to the proposal for the re-election of the retiring Directors as set at in the notice of SGM.

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## LETTER FROM THE BOARD

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### 9. GENERAL

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Industrial Securities and the additional information set out in the appendices to this circular and the notice of SGM.

Yours faithfully,  
For and on behalf 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)**

16 April 2013

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS:  
THE INTELLECTUAL PROPERTIES TRANSFER AGREEMENT  
AND  
THE PATENTS LICENCE AGREEMENT**

We refer to the circular dated 16 April 2013 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 members of the Independent Board Committee to consider the Intellectual Properties Transfer Agreement and the Patents Licence Agreement 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 Intellectual Properties Transfer Agreement and the Patents Licence Agreement 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 Intellectual Properties Transfer Agreement and the Patents Licence Agreement.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 12 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 Intellectual Properties Transfer Agreement and the Patents Licence Agreement, as set out on pages 15 to 26 of the Circular.

Having taken into account the principal factors and reasons considered by Industrial Securities and its conclusion and advice, we consider that the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement.

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

16 April 2013

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

Dear Sirs,

**CONNECTED TRANSACTIONS:  
THE INTELLECTUAL PROPERTIES TRANSFER AGREEMENT  
AND  
THE PATENTS LICENCE AGREEMENT**

### INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement, 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 16 April 2013, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires.

As set out in the Board Letter, on 18 March 2013, Peking Founder and Founder Electronics entered into the Intellectual Properties Transfer Agreement with China Digital Video pursuant to which, subject to the approval by the Independent Shareholders at the SGM and the approval by the State-owned Assets Administration Department of the PRC, (i) Peking Founder and Founder Electronics, as joint owners of the First Patents and Patent Application Rights, conditionally agreed to jointly transfer all their title and interest in the First Patents and Patent Application Rights; and (ii) Founder Electronics conditionally agreed to transfer all its title and interest in the Trademarks and the Software Copyrights, to China Digital Video at an aggregate consideration of RMB101,475,970 (equivalent to approximately HK\$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK\$68,720,000), representing approximately 54.2% of the consideration, is payable to Founder Electronics.

On 18 March 2013, Peking Founder, Founder Electronics and Peking University entered into the Patents Licence Agreement with China Digital Video, pursuant to which, subject to the approval by the Independent Shareholders at the SGM and the approval by the

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## LETTER FROM INDUSTRIAL SECURITIES

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State-owned Assets Administration Department of the PRC, Peking Founder, Founder Electronics and Peking University, as joint owners of the Second Patents and Patent Application Rights, conditionally agreed to grant the exclusive rights to use the Second Patents and Patent Application Rights for the entire validity period of the Second Patents and Patent Application Rights to China Digital Video at a consideration of RMB7,000,000 (equivalent to approximately HK\$8,750,000), out of which RMB3,000,000 (equivalent to approximately HK\$3,750,000), representing approximately 42.9% of the consideration, is payable to Founder Electronics.

As at the Latest Practicable Date, the Company is owned as to approximately 32.49% by Peking Founder, being the controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Further, Peking University is interested in 100% equity interest in Peking University Asset Management Company Limited, which is in turn interested in 70% equity interest in Peking Founder. Therefore, Peking University is also a connected person of the Company under the Listing Rules. In view of this, each of the Transfer and the Licence constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios as aggregated in respect of the Transfer and the Licence are more than 5% and the aggregate consideration exceeds HK\$10 million, the Transfer and the Licence as aggregated constitute non-exempt connected transactions of the Company subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The 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 established to advise whether the Intellectual Properties Transfer Agreement and the Patents Licence Agreement 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 (HK) 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

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## LETTER FROM INDUSTRIAL SECURITIES

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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. In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Directors and the management of the Company in connection with the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement, and we have discussed with the management of the Company so as to assess the fairness and reasonableness of the terms of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement and the transactions contemplated under the Intellectual Properties Transfer Agreement and the Patents Licence Agreement. Relevant information and documents included, among other things, the Intellectual Properties Transfer Agreement and the Patents Licence Agreement, the annual report of the Company for the year ended 31 December 2011 (the “**Annual Report**”), the interim report of the Company for the six months ended 30 June 2012 (the “**Interim Report**”), the financial information of Founder Electronics regarding the digital broadcasting business for the two financial years ended 31 December 2012 provided by the Company and a valuation report issued by LCH dated 16 April 2013 in relation to the valuation of the First Patents and Patent Application Rights, the Second Patents and Patent Application Rights, the Trademarks and the Software Copyrights (the “**Valuation Report**”). We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. 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 Group. 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.

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## LETTER FROM INDUSTRIAL SECURITIES

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement, we have taken the following principal factors and reasons into consideration:

#### **A. Background and Reasons for the Intellectual Properties Transfer Agreement and the Patents Licence Agreement**

Founder Electronics is an indirect wholly-owned subsidiary of the Company and is engaged in several major areas including digital printing business, digital publication business, digital broadcasting business and font business.

China Digital Video is principally engaged in the provision of products with self-owned intellectual property rights such as graphic and text production system, non-linear editing system, network production and broadcasting system, and virtual studio system. It is also engaged in the provision of various types of professional digital media content production and operation solutions and technical services such as new media application, data media services, broadcasting technology services, and the building and maintenance of the International Broadcast Centre.

According to the Board Letter, the digital broadcasting business of Founder Electronics recorded loss-making results for the past two years. We have reviewed the financial information of Founder Electronics regarding the digital broadcasting business provided by the Company, and noted that results are in line with the statement in the Board Letter. As above mentioned, besides the digital broadcasting business, Founder Electronics is also engaged in digital printing business, digital publication business and font business. The revenue generated from the digital broadcasting business for the year of 2012 was approximately 13% of the total revenue of Founder Electronics as advised by the Company. Hence, the digital broadcasting business does not form an important part of business of Founder Electronics. In addition, we noted from the Annual Report and Interim Report that the Group will keep going to closely monitor the performance of each of its business sector to achieve effective cost control and to maximize shareholders' value.

Moreover, as stated in the Board Letter, the carrying value of the First Patents and Patent Application Rights, the Second Patents and Patent Application Rights, the Trademarks and the Software Copyrights as stated in the Group's unaudited accounts as at 30 June 2012 is nil. The Directors expect that the Group would record unaudited gains (before deducting any professional fees) of approximately HK\$68,720,000 and HK\$3,750,000 as a result of the Transfer and the Licence respectively. As confirmed by the Directors, the payment of considerations under each of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement from China Digital Video will be settled by cash and the proceeds will be used by the Group as the funds for developing and cultivating core potential business in order to explore more niche market opportunities for the Group.

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## LETTER FROM INDUSTRIAL SECURITIES

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In view of the above, we concur with the Directors' view that discontinuing the digital broadcasting business will (i) improve the overall operating efficiency of Founder Electronics through deploying more resources on the digital printing and digital publication businesses, font business and other emerging business; and (ii) allow the Group to develop and cultivate core potential business in order to explore more niche market opportunities for the Group.

Having considered (i) the business nature of Founder Electronics; (ii) the loss-making results for the digital broadcasting business of Founder Electronics for the past two years; (iii) unaudited gains (before deducting any professional fees) of approximately HK\$68,720,000 and HK\$3,750,000 as a result of the Transfer and the Licence respectively; (iv) discontinuing the digital broadcasting business will improve the overall operating efficiency of Founder Electronics; (v) proceeds from the Transfer and the Licence will allow the Group to develop and cultivate core potential business in order to explore more niche market opportunities for the Group; and (vi) subject to the approval by the State-owned Assets Administration Department of the PRC, we are of the opinion that the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

### **B. Terms of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement**

#### **1. Principal Terms of the Intellectual Properties Transfer Agreement**

**Date:**

18 March 2013

**Parties:**

- (1) Peking Founder as one of the two transferors;
- (2) Founder Electronics as the remaining transferor; and
- (3) China Digital Video as the transferee.

**Subject Assets:**

Pursuant to the Intellectual Properties Transfer Agreement, (i) Peking Founder and Founder Electronics conditionally agreed to jointly transfer all their title and interest in the First Patents and Patent Application Rights; and (ii) Founder Electronics conditionally agreed to transfer all its title and interest in the Trademarks and the Software Copyrights, to China Digital Video. The First Patents and Patent Application Rights comprise 5 patents and 37 rights to the application, for the patents in relation to data transmission and processing, document releasing and broadcasting. The Trademarks comprise of 3 trademarks registered in the PRC, namely Founder Wuyou, Founder Tianyi and Founder Jing

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## LETTER FROM INDUSTRIAL SECURITIES

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Yu, whereas the Software Copyrights comprise of 13 computer software copyrights in relation to data transmission and processing, document releasing, broadcasting and non-linear editing. The carrying value of the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights as stated in the Group's unaudited accounts as at 30 June 2012 is nil.

**Consideration:**

The consideration for the Transfer is RMB101,475,970 (equivalent to approximately HK\$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK\$68,720,000), representing approximately 54.2% of the consideration, is payable to Founder Electronics. Such consideration has been arrived at after arm's length negotiations between the parties, taking into account that the transferors of the patents are entitled to share a portion of the consideration based on their respective contribution to the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights.

Pursuant to the Intellectual Properties Transfer Agreement, China Digital Video had paid to Founder Electronics the first instalment of RMB8,475,970 (equivalent to approximately HK\$10,595,000), within 2 business days from the date of the Intellectual Properties Transfer Agreement and had paid to each of Peking Founder and Founder Electronics the second instalment of RMB25,000,000 (equivalent to approximately HK\$31,250,000) within 7 business days from the date of the agreement. The balance of the consideration shall be paid within 5 business days from the date that the approval of the Independent Shareholders and the State-owned Assets Administration Department of the PRC for the Transfer are obtained.

## 2. Principal Terms of the Patents Licence Agreement

**Date:**

18 March 2013

**Parties:**

- (1) Peking Founder as one of the three licensors;
- (2) Founder Electronics as one of the three licensors;
- (3) Peking University as the remaining licensor; and
- (4) China Digital Video as the licensee.

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## LETTER FROM INDUSTRIAL SECURITIES

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### **Subject Assets:**

Pursuant to the Patents Licence Agreement, Peking Founder, Founder Electronics and Peking University, as the joint owners of the Second Patents and Patent Application Rights, conditionally agreed to grant the exclusive rights to use the Second Patents and Patent Application Rights for the entire validity period of the Second Patents and Patent Application Rights to China Digital Video. The Second Patents and Patent Application Rights include 17 patents and 19 rights to the applications for the patents in relation to broadcasting and data transmission and processing and their carrying value as stated in the Group's unaudited accounts as at 30 June 2012 is nil.

### **Consideration:**

The consideration for granting the exclusive rights to use the Second Patents and Patent Application Rights is RMB7,000,000 (equivalent to approximately HK\$8,750,000), out of which RMB3,000,000 (equivalent to approximately HK\$3,750,000), representing approximately 42.9% of the consideration, is payable to Founder Electronics. China Digital Video shall pay such consideration within 15 business days from the date that the approvals of the Independent Shareholders and the State-owned Assets Administration Department of the PRC for the Licence are obtained. Such consideration has been arrived at after arm's length negotiations between the parties after taking into account that the licensors of the patents are entitled to share a portion of the consideration based on their respective contribution to the Second Patents and Patent Application Rights.

The Company has appointed an independent valuer (the "**Valuer**") to determine the appraised value of the First Patents and Patent Application Rights, the Second Patents and the Patent Application Rights, the Trademarks and the Software Copyrights as a whole (the "**Appraised Assets**"). We have reviewed the Valuer's experience in performing intangible assets valuation such as intellectual properties and patents, and consider that the Valuer is qualified to provide a reliable valuation for the Appraised Assets.

In order to assess the fairness and reasonableness of the methodology used in arriving the valuation, we have also reviewed the Valuation Report as set out in Appendix I of the Circular and have discussed with the Valuer regarding the methodology of and the bases and assumptions adopted for the valuation.

As advised by the Valuer, the Valuer had considered three generally accepted valuation approaches, namely the Income Approach, the Cost Approach and the Market Approach. The Valuer had adopted the Market Approach for the valuation of the Appraised Assets (the "**Valuation**").

According to the Valuation Report, the Income Approach is the present worth of the future economic benefits of ownership. This approach is generally applied to assets where there is an established and identifiable economic benefits market such as rental income or royalty income or to an aggregation of assets in an entire business enterprise/project including working capital and tangible and intangible assets. The projected economic



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## LETTER FROM INDUSTRIAL SECURITIES

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benefits comprise the benefits derived from the existing aggregated assets, including the Appraised Assets as well as future prospects and investments. As stated in the Valuation Report, the most common methods for the Income Approach are Relief from Royalty Method and Multi-period Excess Earning Method. By using the Relief from Royalty Method, the Appraised Assets is valued by reference to the estimated amount of royalty income it can generate if it was licensed to a third party. The Valuer had considered various alternatives in the determination of the royalty rate. To arrive at an appropriate royalty rate, the best evidence is to inquire whether Founder Electronics has granted any similar license to other companies to use the Appraised Assets. However, as advised by the Company, the use of the Appraised Assets has not been granted to any other company. Thus, the Valuer looked for industry standards to see if any previous deals in a sufficient number and specificity that can be used as references to agree upon a fair royalty rate. However, after conducting a selective research by the Valuer, the Valuer was unable to identify any licensing for such bundle of intellectual properties, which comprised trademark, patent and software copyright, for digital broadcasting business.

Then, the Valuer had considered the Multi-period Excess Earnings Method which is based on the assumption that cash flows can only be generated from an intangible asset in conjunction with other tangible or intangible assets. However, after discussion with the management of the Company, the Valuer considers that (i) the future benefits derived from the Appraised Assets are highly dependent on the continuous development for the replacement of the existing technologies; (ii) the Appraised Assets will only be used in one of the divisions of the Company; (iii) it is rather difficult to estimate the expected useful life of the Appraised Assets due to the rapid change of technology; and (iv) since the Appraised Assets are selectively combined based on the requirements on each of the projects to generate revenue, the Appraised Assets may not be fully utilised in each of the projects, a reliable forecast cannot be easily projected. Therefore, due to the uncertainty of the future benefits of the Appraised Assets, the Valuer did not rely on the Income Approach.

Further from the Valuation Report, the Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, cutting, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age, functional and economic/external obsolescence. The disadvantage of this approach is, in many instances, the value of an intellectual property will be understated as it does not take into consideration of the current operations and the impact of its management's decision-making abilities. This approach is often being used at the development stage of an intellectual property, when there is no any track record and the operating benefit is uncertain. Therefore, the Cost Approach is not relied on by the Valuer to estimate the fair value of the Appraised Assets as the Appraised Assets have been developed for several years with a traceable financial record.

The Valuer has used the business residual method to arrive at an indicative value of the Appraised Assets. This method is based on the assumption that value of the entire business operation (i.e. enterprise value) could be allocated to the tangible and intangible assets. So in order to separate the Appraised Assets to be valued, the enterprise value has to be estimated first. As the Appraised Assets have been established for several years, and consistently generating positive earnings, the Valuer has employed the Market Approach to



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value the enterprise value of the subject digital broadcasting business division of Founder Electronics with the particular usage of the Appraised Assets as part of a going concern business (the "Subject Division") by comparing with the observed market prices of companies with similar business nature. Based on those comparable companies, representative multiples (i.e. financial ratios) are derived to apply to the fundamental financial variables of Subject Division and to arrive at an indicated value of the Subject Division, in which price-to-book ("PB") and enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortisation) ("EV/EBITDA") multiples are adopted by the Valuer. Then the value of the fixed assets and other identifiable assets are deducted from the derived enterprise value. The resulting residual value could be allocated as the fair value of the Appraised Assets.

During the course of our discussions with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation.

According to the Valuation Report, the Valuation as at 18 March 2013 is RMB99,800,000, which is lower than the aggregate consideration of the Transfer and the Licence at RMB108,475,970. As confirmed by the Company, the Transfer and the Licence are negotiated between the parties simultaneously with an objective to execute both of the Transfer and the Licence together. As such, we consider that the aggregate consideration of the Transfer and the Licence is justifiable.

According to the Intellectual Properties Transfer Agreement, the subject assets include the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights. We have discussed with the management of the Company and the Directors confirmed that the total consideration of RMB101,475,970 under the Intellectual Properties Transfer Agreement is arrived after arm's length negotiations between the parties whereas, the consideration for the First Patents and Patent Application Rights is amounted to RMB93,000,000 and the remaining of RMB8,475,970 is attributed from the Trademarks and the Software Copyrights. As advised by the Company, the First Patents and Patent Application Rights are jointly owned by Peking Founder and Founder Electronics, and the two parties have equal rights as to the use of the First Patents and Patent Application Rights. Therefore, Peking Founder and Founder Electronics have agreed to share evenly the consideration of RMB93,000,000, and hence Founder Electronics is entitled to receive the amount of RMB46,500,000. For the remaining consideration of RMB8,475,970 resulted from the transfer of all title and interest in the Trademarks and the Software Copyrights of Founder Electronics, the Directors confirmed that this amount will be fully and solely entitled to Founder Electronics. As such, the total consideration for the First Patents and Patent Application Rights, the Trademarks and the Software Copyrights payable to Founder Electronics is amounted to RMB54,975,970 (equivalent to approximately HK\$68,720,000). In view of the reasons discussed above, we consider that the consideration of RMB54,975,970 (equivalent to approximately HK\$68,720,000), representing approximately 54.2% of the total consideration under the Intellectual Properties Transfer Agreement payable to Founder Electronics is justifiable.

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## LETTER FROM INDUSTRIAL SECURITIES

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According to the Patents Licence Agreement, the Second Patents and Patent Application Rights include 17 patents and 19 rights to the application for the patents in relation to broadcasting and data transmission and processing. The Company confirmed that Peking Founder, Founder Electronics and Peking University entitled to receive the proceeds pursuant to the Patents Licence Agreement in the proportion of 1:3:3 with reference to the number of patents and rights under the Patents Licence Agreement owned by each respective party. Therefore, Founder Electronics is entitled to receive the amount of RMB3,000,000 out of the consideration of RMB7,000,000 for granting China Digital Video the exclusive rights to use the Second Patents and Patent Application Rights. The Company further confirmed that, save as China Digital Video, no other parties have ever approached Founder Electronics for granting the exclusive rights to use the Second Patents and Patent Application Rights. In view of the consideration under the Patents Licence Agreement was determined after arm's length negotiation between the parties and the reasons discussed above, we consider that the consideration of RMB3,000,000 (equivalent to approximately HK\$3,750,000), representing approximately 42.9% of the total consideration under the Patents Licence Agreement payable to Founder Electronics is justifiable.

In addition, the Company confirmed that (i) the First Patents and Patent Application Rights, (ii) the Second Patents and Patent Application Rights, (iii) the Trademarks and (iv) the Software Copyrights form the major part of assets for the digital broadcasting business. However, we have discussed with the management of the Company and the Directors confirmed that the Second Patents and Patent Application Rights, besides digital broadcasting business, will be also used by the digital publication business of Founder Electronics for future development on emerging mobile applications, in particular, multimedia content processing, management, transmission and publication. Therefore, the exclusive rights to use the Second Patents and Patent Application Rights is conditionally granted to China Digital Video for the entire validity period of the Second Patents and Patent Application Rights, instead of conditionally transferring all the title and interest of the same, so such arrangement will provide flexibility to the Company for future development on its digital publication business. In view of (i) Founder Electronics will discontinue the digital broadcasting business and focus on the digital printing and digital publication businesses, font business and other emerging business; and (ii) the ownership of the Second Patents and Patent Application Rights can be reserved for future development on its digital publication business as discussed above, we concur with the Directors' view that such arrangement is in the interests of the Company and the Shareholders as a whole.

Having considered the above, and we have reviewed all the terms of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement and noted that there are no extra-ordinary terms or less favourable terms to the Company, we are of the view that the terms for each of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM INDUSTRIAL SECURITIES

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### C. Possible Financial Effects of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement

#### (i) Net asset value

As confirmed by the Directors, the carrying value of the First Patents and Patent Application Rights, the Second Patents and Patent Application Rights, the Trademarks and the Software Copyrights as at 30 June 2012 in the Group's unaudited accounts is nil. Therefore, upon completion of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement ("**Completion**"), the net asset value of the Group will be increased by RMB57,975,970 (equivalent to approximately HK\$72,470,000) (before deducting any professional fees) as a result of the consideration which will be settled by cash.

#### (ii) Net earnings

The consideration for the Intellectual Properties Transfer Agreement and the Patents Licence Agreement is RMB54,975,970 (equivalent to approximately HK\$68,720,000) and RMB3,000,000 (equivalent to approximately HK\$3,750,000) respectively, payable to Founder Electronics. Upon Completion, the Group would record unaudited gains of RMB57,975,970 (equivalent to approximately HK\$72,470,000) (before deducting any professional fees) in aggregate.

#### (iii) Liquidity

As confirmed by the Directors, the consideration for the Intellectual Properties Transfer Agreement and the Patents Licence Agreement is payable in cash to Founder Electronics. Accordingly, the liquidity position of the Group will be improved by RMB57,975,970 (equivalent to approximately HK\$72,470,000) immediately after Completion.

As a result of the Intellectual Properties Transfer Agreement and the Patents Licence Agreement, the net asset value, net earnings and liquidity will all be improved. In view of this, we are of the opinion that the Intellectual Properties Transfer Agreement and the Patents Licence Agreement will have a positive impact on the financial position of the Group.

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## LETTER FROM INDUSTRIAL SECURITIES

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### RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the Intellectual Properties Transfer Agreement and the Patents Licence Agreement are in the ordinary and usual course of business of the Group and in normal commercial terms, as well as 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 Board Committee to advise the Independent Shareholders and recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Intellectual Properties Transfer Agreement and the Patents Licence Agreement.

Yours faithfully,  
For and on behalf of  
**Industrial Securities (HK) Capital Limited**  
**Leung Kin Cheong, Laurent**  
*Managing Director*



利駿行測量師有限公司

**LCH (Asia-Pacific) Surveyors Limited**PROFESSIONAL SURVEYOR  
PLANT AND MACHINERY VALUER  
BUSINESS & FINANCIAL ASSETS VALUER

*The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards 2011 published by the International Valuation Standards Council which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. This report is prepared and signed off in English format, translation of this report in language other than English shall only be used as reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. Translation of terms in English or in Chinese are for readers' identification purpose only and have no legal status or implication on the report. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusion.*

16 April 2013

17th Floor  
Champion Building  
Nos. 287-291 Des Voeux Road  
Central  
Hong KongThe Board of Directors  
Founder Holdings Limited  
Unit 1408, 14th Floor  
Cable TV Tower  
9 Hoi Shing Road  
Tsuen Wan  
New Territories

Dear Sirs,

In accordance with the instructions given by the management of Founder Holdings Limited (hereinafter referred to as the "Company"), we have investigated and conducted an agreed-upon procedures valuation of the possible fair value of a bundle of intellectual properties (hereinafter referred to as the "Appraised Assets" and to be defined in later part of this report) jointly owned by Peking University Founder Group Company Limited (hereinafter referred to as "Peking Founder"), Beijing Founder Electronics Co., Ltd. (hereinafter referred to as "Founder Electronics") and Peking University as at 18 March

2013 (hereinafter referred to as the “Valuation Date”) for the Company’s internal management reference. Our findings and conclusion in this agreed-upon procedures valuation are documented as follows:

### **INSTRUCTION**

In this valuation, we were instructed to analyse and to express an independent opinion of the possible fair value of the Appraised Assets as at the Valuation Date, with the particular usage of the Appraised Assets as part of a going concern business, and based on documents and information provided by the management of the Company or its appointed personnel.

The term “Fair Value” is defined by the International Valuation Standards 2011 (hereinafter referred to as the “IVS”) and published by the International Valuation Standards Council as “the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties”.

We understand that the management of the Company will refer our work product (in any form of presentation) as part of its business due diligence and we have not been engaged to make specific sales and purchase recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its decision with regard to the Appraised Assets. It is agreed that our work is designed solely to provide information that will give a reference to the management of the Company as part of its due diligence process, and our work should not be the only factor to be referenced by the Company.

### **THE COMPANY PROFILE**

The Company and its subsidiaries are principally engaged in software development and systems integration. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (hereinafter referred to as “HKEX”) on 21 December 1995. As of 18 March 2013, it had a market capitalisation of approximately HK\$300 million with issued shares of approximately 1.13 billion.

As at the Valuation Date, Peking Founder, the controlling shareholder of the Company, holds 367,179,610 of its ordinary shares, representing a shareholding interest of approximately 32.49% in the Company. In addition, Founder Electronics is an indirect wholly-owned subsidiary of the Company. Founder Electronics is a technology service provider and consultant in Chinese printing and media industry. Its business covers the fields of printing, media, publishing, fonts and digital education. Further, Peking University holds 100% equity interest in Peking University Asset Management Company Limited, which in turn holds 70% equity interest in Peking Founder.

**INTRODUCTION AND DEFINED TERMS USED IN THE REPORT**

The Appraised Assets include a bundle of subject intellectual properties, which include 78 various readily granted and pending patents, 13 various software copyrights, and 3 various trademarks, each with different terms and economic life, for the digital broadcasting business. Since the digital broadcasting business generates income through various projects, such that the above subject intellectual properties are selectively grouped into different combinations to generate income revenue based on the requirements on each of the projects.

The First Patents and Patent Application Rights (as defined in this circular) comprise 5 patents and 37 rights to the application for the patents in relation to data transmission and processing, document releasing and broadcasting. The trademarks comprise of three trademarks registered in the PRC (the People's Republic of China), namely Founder Wuyou, Founder Tianyi and Founder Jing Yu, whereas the software copyrights comprise of 13 computer software copyrights in relation to data transmission and processing, document releasing, broadcasting and non-linear editing.

The Second Patents and Patent Application Rights (as defined in this circular) include 17 patents and 19 rights to the application of the patents in relation to broadcasting and data transmission and processing.

**Intellectual Properties Transfer Agreement**

On 18 March 2013, Peking Founder and Founder Electronics entered into the Intellectual Properties Transfer Agreement with China Digital Video (as defined in this circular) pursuant to which, (i) Peking Founder and Founder Electronics, as joint owners of the First Patents and Patent Application Rights, conditionally agreed to jointly transfer all their titles and interests in the First Patents and Patent Application Rights; and (ii) Founder Electronics conditionally agreed to transfer all its titles and interests in the Trademarks and the Software Copyrights to China Digital Video.

**Patents Licence Agreement**

On 18 March 2013, Peking Founder, Founder Electronics and Peking University entered into the Patents Licence Agreement with China Digital Video pursuant to which, Peking Founder, Founder Electronics and Peking University, as joint owners of the Second Patents and Patent Application Rights, conditionally agreed to grant the exclusive rights to use the Second Patents and Patent Application Rights for the entire validity period of the Second Patents and Patent Application Rights to China Digital Video.

**VALUATION PROCEDURES ADOPTED**

In performing the valuation, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- To prepare and submit a list(s) of required documents and information regarding to the operation of the subject digital broadcasting business division of the Company with the particular usage of the Appraised Assets as part of a going

concern business (hereinafter referred to as the “subject division”) during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the management of the Company.

- To read the supplied materials and based on the content of the materials such as product information, market condition, financial information and the scale of the going concern of business of the subject division to arrive at our opinion of value. In the course of our valuation, we will assume the information contained in the materials provided to us are correct and we will not verify or ascertain the correctness of the information contained in the materials.
- To hold discussions with relevant personnel and to review various accounting and financial documents in order to understand the scope of their assets and their operations.
- To conduct appropriate study in order to obtain necessary industry and market information to support our opinion of value. The extent of research is at our discretion.
- To value the Appraised Assets using the respective standards of value that is most appropriate.
- To document our findings and conclusion in our valuation report.

#### **THE BASIS OF VALUATION**

The Appraised Assets are valued on the basis of “Fair Value” in continued use or as a going concern. The continued use premise assumes that the Appraised Assets will be used for the purpose for which the Appraised Assets were conceived or are currently used. Implicit in this definition is the fact that a hypothetical willing and able buyer would not pay more to acquire the Appraised Assets than he could reasonably expect to earn in the future from an investment in the Appraised Assets.

Our valuation has been made on the assumptions that, as at the Valuation Date,

1. the legally interested parties in the Appraised Assets have free and uninterrupted rights to assign for the whole of the unexpired terms as granted under the relevant approvals and any premiums/administrative costs payable have already been fully paid;
2. all the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation contained in our report is based;
3. the legally interested parties in the Appraised Assets have adequate working capital to operate the subject division in the PRC from time to time;



4. the Appraised Assets can be sold in the market in its existing state without the benefit of a deferred terms contract, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the Appraised Assets;
5. the management of the subject division has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as change of government policy, technology improvement and labour dispute) to the normal business of the subject division; and
6. the Appraised Assets can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the reported findings and conclusion herein.

#### **FACTORS CONSIDERED IN THE VALUATION**

The valuation of the Appraised Assets, for the purpose of the valuation, required consideration of a number of pertinent factors affecting the Appraised Assets and its ability to generate income as part of a going-concern business of the subject division. The factors considered in the valuation included, but were not limited to, the following:

- the nature of the Appraised Assets such as the remaining life and its characteristics;
- the nature and the going concern business of the subject division;
- the quality of the subject division's assets;
- the capability and determination of the management of the Company to renew all the necessary licences, permits and approvals from time to time to make the business of the subject division be on-going;
- the capability and determination of the management of the subject division to maintain its existing clientele (the sales and distribution network) and its favourable working relationship with its suppliers (the supply network);
- the capability and determination of the management of the subject division to continue the existing marketing strategy to maintain and attract customers or potential customers;
- the capability and determination of the management of the subject division to continue develop and construct its business;

- the capability and determination of the management of the subject division to maintain its existing qualification and management standards and to review/up-lift its standards to catch the market needs from time to time;
- the capability and determination of the management of the subject division to trade up-to-date projects to catch the market needs;
- the commitment of the management of the subject division to protect the Appraised Assets against any disruption of its normal business;
- the economic and industry data affecting the Appraised Assets and the related technology industry in China;
- market-derived investment returns in similar nature of entities; and
- the risks facing the Appraised Assets.

#### **ESTABLISHMENT OF TITLES**

For the purpose of this valuation, the management of the Company was requested to provide us the necessary documents to support that the legally interested parties in the Appraised Assets have free and uninterrupted rights to assign the Appraised Assets (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the management of the Company did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested parties obtained the Appraised Assets and the relevant exclusive rights to distribute and sell its products from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles and the rights to the Appraised Assets.

We have been provided with various copies of title documents regarding to the Appraised Assets. However, we have not inspected the original documents to verify the ownership or any amendment which may not appear on the copies handed to us. As we are not legal professional, we are unable to ascertain the titles and to report any encumbrances that may be registered against the Appraised Assets. No responsibility or liability is assumed in relation to those opinions or copies of documents.

In our valuation, we have assumed that the legally interested parties in the Appraised Assets have obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested parties to continue the ownership of the Appraised Assets. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

## APPROACH TO VALUE

As we are valuing a bundle of intellectual properties, business residual method is considered to be the most appropriate method to arrive at an indicative value of the Appraised Assets. This method is based on the assumption that the value of the entire business operation (i.e. enterprise value) could be allocated to the tangible and intangible assets. In order to separate the Appraised Assets to be valued, the enterprise value is first estimated, then, the value of the fixed assets and other identifiable assets are deducted from the derived enterprise value. The resulting residual value could be allocated as the fair value of the Appraised Assets.

Based on the fact that the Appraised Assets have been established for several years, and consistently generating positive earnings, the Market Approach to value the enterprise value has been employed to compare to the observed market prices of other companies with similar business nature. Based on those comparable companies, representative multiples (i.e. financial ratios) are derived to apply to the fundamental financial variables of the subject division and to arrive at an indicated value of the subject division. The most commonly used multiples are price-to-earnings (“PE”), price-to-sales (or revenue) (“PS”), price-to-book (“PB”) and enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortisation) (“EV/EBITDA”) multiple.

We noticed that there are several listed companies with business similar to the subject division. They are:

Stock Code	Company Name	PB	EV/ EBITDA
600288 CH	Daheng New Epoch Technology Inc.	3.14	18.23
300211 CH	Jiangsu Yitong High-Tech Co Ltd	1.82	17.27
600764 CH	CEC CoreCast Corp Ltd	2.74	24.57
STV US	China Digital TV Holding Co., Ltd.	0.50	0.41
300028 CH	Chengdu Geeya Technology Co., Ltd	2.05	26.63
600775 CH	Nanjing Panda Electronics Co Ltd	2.57	23.17
300182 CH	Beijing Jetsen Technology Co Ltd	5.21	37.13

\* *The ratios are derived based on the observed market prices as at the Valuation Date and the latest audited financial data available for all comparable companies as at the Valuation Date in public domains.*

Since the subject division on its own is not publicly traded, it is considered to be less liquid and may not be easily converted to cash compared to similar interests in those public companies. For example, a share of stock in a privately held company is usually worth less than an otherwise comparable share of a publicly held company. In this valuation, we opted to apply a lack of marketability discount of, say, 35% to the enterprise value in order to follow the common practice in valuing a closely held company.

After removing the outliers and considering the discount for lack of marketability, the adjusted market ratios adopted are as follows,

Price/Book	1.60
EV/EBITDA	14.80

Based on the consolidated financial statements provided by the management of the Company, the enterprise value of the subject division, by using these ratios, can be derived as follows,

Ratios	(in RMB thousand)	Adjusted Ratios	(in RMB thousand) Total Enterprise Value
	2011 Financial Data		
Price/Book	55,100	1.60	105,300
EV/EBITDA	10,600	14.80	<u>156,900</u>
		Average:	<u><u>131,100*</u></u>

According to the business residual method, the value of the fixed assets and working capital are required to be deducted from the value of the business operation. By using equal weighting of these ratios, the resulting residual value can be derived as follows,

Total Enterprise Value (in RMB thousand)	131,100
Less: Fixed Assets and Working Capital	<u>(31,300)</u>
<b>Total Value of the Appraised Assets (in RMB thousand)</b>	<b><u><u>99,800*</u></u></b>

\* The figures may not add to total due to rounding

## VALUATION COMMENTS

In our valuation, we have also considered the Income Approach and the Cost Approach. The *Income Approach* is the present worth of the future economic benefits of ownership. This approach is generally applied to assets where there is an established and identifiable economic benefits market such as rental income or royalty income or to an aggregation of assets in an entire business enterprise/project including working capital and tangible and intangible assets. The projected economic benefits comprise the benefits derived from the existing aggregated assets, including the Appraised Assets, as well as future prospects and investments.

The most common methods for the Income Approach are Relief from Royalty Method and Multi-period Excess Earning Method. Relief from Royalty Method is one of the Yield Capitalisation Methods (also known as the Discounted Cash Flow Method, DCF) by discounting the future economic benefits of the Appraised Assets throughout its economic

life to its present value. By using this method, the Appraised Assets are valued by reference to the estimated amount of royalty income it can generate if it was licensed as at the Valuation Date, in an arm's length transaction, to a third party.

We have considered various alternatives in the determination of the royalty rate. To arrive at an appropriate royalty rate, the best evidence is to inquire whether the owner of the Appraised Assets has granted any similar license to other companies to use the Appraised Assets. However, as advised by the Company, the use of the Appraised Assets has not been granted to any other company. Thus, we looked for industry standards to determine the appropriate royalty rate.

The term "industry standards" is referred to the existence of a database of previous deals in a sufficient number and specificity that licensors and licensees can, by reference to such data, agree upon a fair royalty rate. We had conducted a selective research on the royalty rate through our data provider partner in the United States, however, we were unable to identify any licensing for such bundle of intellectual properties, which comprised trademark, patent and software copyright, for digital broadcasting business. As a result, we have not been relied on the Relief from Royalty Method.

Then, we turned to the Multi-period Excess Earnings Method ("MEEM"), MEEM is based on the assumption that cash flows can only be generated from an intangible asset in conjunction with other tangible or intangible assets. In order to separate the intangible asset to be valued, fictitious payments for the supporting assets are considered as contributory asset charges (KPMG (2009)). However, after discussion with the management of the Company, we understand that (i) the future benefits derived from the Appraised Assets are highly dependent on the continuous development for the replacement of the existing technologies; (ii) the Appraised Assets will only be used in one of the divisions of the Company; (iii) it is rather difficult to estimate the expected useful life of the Appraised Assets due to the rapid change of technology; and (iv) since the Appraised Assets are selectively combined based on the requirements on each of the projects to generate revenue, the Appraised Assets may not be fully utilised in each of the projects, a reliable forecast cannot be easily projected. Therefore, due to the uncertainty of the future benefits of the Appraised Assets, we have not relied on the Income Approach.

We also considered the *Cost Approach*. The approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, cutting, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age, functional and economic/external obsolescence. The disadvantage of this approach is, in many instances, the value of an intellectual property will be understated as it does not take into consideration of the current operations and the impact of its management's decision-making abilities. This approach is often being used at the development stage of an intellectual property, when there is no any track record and the operating benefit is uncertain. We have reservation to use this approach as the Appraised Assets have been developed for several years with a traceable financial record. Under such circumstances, we have not relied on the Cost Approach in our estimate of the fair value of the Appraised Assets.

**MATTERS THAT MIGHT AFFECT THE VALUE REPORTED**

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Appraised Assets. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Appraised Assets. Unless otherwise stated, it is assumed that the Appraised Assets are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

In our valuation, we have assumed that the Appraised Assets are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Valuation Date, we are unable to identify any adverse news against the Appraised Assets or the operating divisions of the Company which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Appraised Assets. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the value reported herein.

**INSPECTIONS AND INVESTIGATIONS**

As agreed with the management of the Company, we have not inspected any operations or assets of the subject division. We cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination has been made. We are not able to report that operations or assets of the subject division are free from rot, insect, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible. In particular, we did not conduct any form of testing to the Appraised Assets, and we solely relied on the technical advice from the appointed personnel of the Company.

If there is a third party other than the legally interested parties in the Appraised Assets proposing to acquire the Appraised Assets and wants to satisfy them as to its condition, then the third party should obtain a relevant engineer's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sales and purchase.

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

**SOURCES OF INFORMATION AND ITS VERIFICATION**

For the purpose of valuing the Appraised Assets, we were furnished with various latest financial documents and other documents related to the Appraised Assets. These data have been utilised without further verification like an auditor. We have had no reason to doubt the truth and accuracy of the information that we have been furnished. No responsibility or liability is assumed for the accuracy of the provided information.

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advices given to us on such matters as planning approvals or statutory notices, titles, easements, financial data, corporation status, technical, business scope, assets and all other relevant matters.

We are not contracted to conduct a due diligence to review the related technology industry in the PRC. In the course of valuation, we have solely depended on the advices given by the management of the Company. We are unable to accept any responsibility or liability for the reliability of the advices.

Our procedures to value did not include preparing an error free asset list for the purpose of our valuation. In our valuation, we were instructed to rely on the information as contained in the balance sheet provided by the management of the Company, thus, we expressed no comment to the existence and the functional ability of the assets. No responsibility or liability is assumed from our part.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other named or unnamed professions, external data providers and/or the management of the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applied in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

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

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).



**LIMITING CONDITIONS**

This report is provided strictly for the sole use of the instructing party. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Unless otherwise stated, the copyright of this report belongs to the valuer. Nonetheless, we consent to the publication of this report in the circular for the Company's shareholders' reference.

Our opinion of value in this report is valid only for the stated purpose at the Valuation Date and only to the instructing party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

We need to state that we are not technical expert in the related technology and no responsibility or liability with regard to the functionability of the Appraised Assets is assumed from our part. The readers or interested party in the Appraised Assets should have their own technical due diligence work with regard to the Appraised asset.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions such as replacement of technology, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the instructing party and the Company are required to indemnify and hold us harmless and our personnel from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

**OPINION OF VALUE**

Based on the above, and on the valuation methods employed, it is our opinion that as of the Valuation Date, the possible fair value of the Appraised Assets (before taking into consideration any transaction cost) was reasonably stated by the amount of **RENMINBI NINETY NINE MILLION AND EIGHT HUNDRED THOUSAND YUAN ONLY (RMB 99,800,000)**.



## STATEMENTS

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

Our valuation is prepared in line with the reporting guidelines as contained in the IVS. The valuation has been undertaken by valuer, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the instructing party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the Appraised Assets, the Company or the value reported.

Yours faithfully,  
For and on behalf of  
**LCH (Asia-Pacific) Surveyors Limited**

**Elsa Ng Hung Mui** *BSc MSc RPS (GP)*  
Director

Contributing valuers in the report:

**Kevin Lee Ho Man** *BMath, Charter pending*  
**Ivan Chan Chun Ting** *BSc*

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## APPENDIX II DETAILS OF THE DIRECTORS PROPOSED FOR RE-ELECTION

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### Mr Li Sheng Li

Mr Li Sheng Li, aged 40, is an executive director of the Company. He is the vice president and chief financial officer of Founder Information Industry Holding Co., Ltd. (方正信息產業控股有限公司) (“Founder Information”), a subsidiary of Peking Founder. He also holds directorships in a number of associated companies of Peking Founder. He received his bachelor’s degree in Economics at Peking University in 1997, obtained graduation certificate in finance from Chinese Academy of Social Sciences in 2008, and obtained an EMBA degree from Peking University Guanghua School of Management in 2012. Mr Li has extensive experience in finance and management.

Save as disclosed above, Mr Li does not hold any position with the Company or any members of the Group, nor has any directorship in other listed public companies in the last three years.

Save as disclosed above, Mr Li does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the Latest Practicable Date, Mr Li does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr Li has entered into a service agreement as an executive director with the Company for a term of two years from 2 April 2013 and should continue thereafter unless and until terminated by either the Company or Mr Li in accordance with the service agreement. Mr Li is not entitled to any director’s fee or salary payable by the Company at the time entering into the service agreement, however, which may be reviewed from time to time at the discretion of the Board. Mr Li is entitled to participate in any profit-related bonus scheme as may be established by the Company and his entitlement thereunder shall be determined at the absolute discretion of the Board and the total amount of bonus payable to all executive directors of the Company shall not exceed 15 per cent. of the audited consolidated net profit of the Group (after payment of all bonuses) after taxation and non-controlling interests of the Group for that financial year. He will hold office until the SGM and will retire at the SGM but will be eligible for re-election pursuant to the bye-laws of the Company.

Save as disclosed above, there are no other matters relating to the appointment of Mr Li that need to be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of Listing Rules.

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## APPENDIX II DETAILS OF THE DIRECTORS PROPOSED FOR RE-ELECTION

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### **Ms Liu Yu Xiao**

Ms Liu Yu Xiao, aged 36, is an executive director of the Company. She is the vice president of Founder Information. She also holds directorships in a number of associated companies of Peking Founder. She received her bachelor's degree in industrial and foreign trading at Xi'an University of Technology in 1998 and obtained Master's degree in Economics at Northwest University in 2001. Ms Liu also obtained qualification certificate of security industry from The Security Association of China and graduation certificate of Master's degree in real estate economy from East China Normal University. Ms Liu has extensive experience in strategic investment.

Save as disclosed above, Ms Liu does not hold any position with the Company or any members of the Group, nor has any directorship in other listed public companies in the last three years.

Save as disclosed above, Ms Liu does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the Latest Practicable Date, Ms Liu does not have any interest in the shares of the Company within the meaning of the SFO.

Ms Liu has entered into a service agreement as an executive director with the Company for a term of two years from 2 April 2013 and should continue thereafter unless and until terminated by either the Company or Ms Liu in accordance with the service agreement. Ms Liu is not entitled to any director's fee or salary payable by the Company at the time entering into the service agreement, however, which may be reviewed from time to time at the discretion of the Board. Ms Liu is entitled to participate in any profit-related bonus scheme as may be established by the Company and her entitlement thereunder shall be determined at the absolute discretion of the Board and the total amount of bonus payable to all executive directors of the Company shall not exceed 15 per cent. of the audited consolidated net profit of the Group (after payment of all bonuses) after taxation and non-controlling interests of the Group for that financial year. She will hold office until the SGM and will retire at the SGM but will be eligible for re-election pursuant to the bye-laws of the Company.

Save as disclosed above, there are no other matters relating to the appointment of Ms Liu that need to be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of Listing Rules.

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief 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 BY DIRECTORS**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules, were as follows:

**Directors' interests in share options of the Company**

<b>Name of director</b>	<b>Number of share options held</b>	<b>Date of grant of share options</b>	<b>Exercise period of share options</b>	<b>Exercise price of share option HK\$</b>
Mr Fang Zhong Hua	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Xiao Jian Guo	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Yang Bin	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Ms Yi Mei	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296

Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Company were made up.

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

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short position 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 the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

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

*Note:* 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.

\* *For identification purpose only*

Save as disclosed above, as at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, no persons had interests or short position in the shares or underlying shares 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 the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

### 4. DIRECTORS' SERVICE CONTRACTS

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

**5. EXPERTS**

<b>Name</b>	<b>Qualification</b>
Industrial Securities	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.
LCH	Professional Surveyor

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

As at the Latest Practicable Date, each of the experts above did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Company were made up. Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they appear.

**6. LITIGATION AND CLAIMS**

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

**7. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective associates had any personal interests in companies engaged in businesses, which compete or may compete with the Group.

**8. MATERIAL CONTRACTS**

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

- (a) the conditional sale and purchase agreement entered into between the Company and Founder Information (Hong Kong) Limited (“Founder Information”) dated 29 August 2011 in relation to the disposal by the Company and the purchase by Founder Information of the Company’s entire shareholding interests in EC-Founder (Holdings) Company Limited (“EC-Founder”) of 363,265,000 shares, representing approximately 32.84% of the then issued share capital of EC-Founder and a loan in the sum of HK\$5.4 million at an aggregate consideration of HK\$114.1 million;
- (b) the entrusted loan master agreement dated 1 November 2011 entered into between the Company (as the lender) and Peking Founder (as the borrower) 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;
- (c) the Intellectual Properties Transfer Agreement; and
- (d) the Patents Licence Agreement.

**9. MATERIAL ADVERSE CHANGE**

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Company were made up.

**10. GENERAL**

The company secretary of the Company is Ms Tang Yuk Bo, Yvonne, ACS, ACIS. 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 English text of this circular shall prevail over the Chinese text in case of inconsistency.

**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 3 May 2013, 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 2011;
- (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 13 to 14 of this circular;
- (v) the letter from Industrial Securities, the text of which is set out on pages 15 to 26 of this circular;
- (vi) the valuation report on the intellectual properties as set out in Appendix I to this circular; and
- (vii) the letter of consent from Industrial Securities and LCH referred to in the paragraph headed “Experts” in this appendix above.



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## NOTICE OF SGM

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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 3:00 p.m. on 3 May 2013 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 resolutions:

### ORDINARY RESOLUTION

1. **“THAT:**
  - (a) the Intellectual Properties Transfer Agreement and the Patents Licence Agreement be and are hereby approved; and
  - (b) 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 Intellectual Properties Transfer Agreement and the Patents Licence Agreement and the transactions contemplated thereunder.”
2. (i) **“THAT** Mr Li Sheng Li be re-elected as an executive director of the Company and any one or more Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/ they consider necessary, desirable or expedient in connection with the re-election of Mr Li Sheng Li as an executive director of the Company.”
  - (ii) **“THAT** Ms Liu Yu Xiao be re-elected as an executive director of the Company and any one or more Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/ they consider necessary, desirable or expedient in connection with the re-election of Ms Liu Yu Xiao as an executive director of the Company.”

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

Hong Kong, 16 April 2013

*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 his/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.

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## NOTICE OF SGM

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2. Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
4. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Peking University Founder Group Company Limited and its associates (as defined in the Listing Rules) are required to abstain from voting on the above ordinary resolution 1.
5. The ordinary resolutions as set out above will be determined by way of poll.

\* *For identification purpose only*