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## **DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS FINANCIAL SERVICES AGREEMENT**

On 3 December 2010, the Company and Founder Finance entered into the Financial Services Agreement, pursuant to which Founder Finance has agreed to provide the Group with (i) Deposit Services; (ii) Loan Services; and (iii) Miscellaneous Financial Services subject to the terms and conditions provided therein.

### **Continuing Connected Transactions**

Peking Founder is a controlling shareholder of the Company. Founder Finance is an indirect wholly-owned subsidiary of Peking Founder and is therefore a connected person of the Company. Accordingly, the Financial Services Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under the Listing Rules.

Since the Loan Services are on normal commercial terms (or better to the Group) where no security over the assets of the Group will be granted in respect of the financial assistance given by Founder Finance, the Loan Services are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

As each of the applicable percentage ratios in respect of the handling fees in connection with the Miscellaneous Financial Services is on an annual basis less than 5% and the annual consideration is less than HK\$1,000,000, the Miscellaneous Financial Services will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Deposit Services are more than 5%, and the total value of the Deposit Services is over HK\$10,000,000, the Deposit Services and the Proposed Deposit Cap are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An SGM will be convened to obtain the Independent Shareholders' approval regarding the Deposit Services and the Proposed Deposit Cap. A circular containing, among others, (i) details of the Financial Services Agreement and the transactions contemplated thereunder and the Proposed Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice by the independent financial adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders on or before 20 December 2010 in accordance with the Listing Rules.

### **Discloseable Transactions**

As the applicable percentage ratios in respect of the Deposit Services are more than 5% but less than 25%, the Deposit Services also constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and are therefore subject to the notification and announcement requirements under Rule 14.34 of the Listing Rules.

## **THE FINANCIAL SERVICES AGREEMENT**

### **Introduction**

On 3 December 2010, the Company and Founder Finance entered into the Financial Services Agreement, pursuant to which Founder Finance has agreed, subject to the terms and conditions therein, to provide the Group with (i) Deposit Services; (ii) Loan Services; and (iii) Miscellaneous Financial Services to the Group on a non-exclusive basis.

The Group utilises the services of Founder Finance on a voluntary and non-exclusive basis and is not obliged to engage Founder Finance for any particular services, or at all under the Financial Services Agreement. Founder Finance is merely one of a number of financial institutions which may provide financial services to the Group.

### **Summary**

#### **1. Date**

3 December 2010

#### **2. Effective Date and the Term**

The Financial Services Agreement shall become effective on 1 January 2011 (or upon the satisfaction of all condition precedents of the Financial Services Agreement, if the satisfaction of which are later than the said date) until 31 December 2013.

### **3. Parties**

- (a) the Company (as services user);
- (b) Founder Finance (as services provider); and
- (c) Peking Founder (as guarantor).

### **4. Major Terms**

- (a) Deposit Services:

Founder Finance will provide RMB deposit services to the Group pursuant to the Financial Services Agreement. The Group will open and maintain RMB deposit accounts with Founder Finance.

The interest rates on the Deposit Services offered by Founder Finance to the Group will not be lower than those offered by other PRC financial institutions, subject to the standard RMB deposit rates promulgated by PBC from time to time.

The Proposed Deposit Cap for the three years ending 31 December 2013 shall not exceed RMB100 million, RMB110 million and RMB121 million, respectively.

In the event that the Group suffers any financial loss by reason of the default of Founder Finance, Founder Finance shall compensate the Group for such loss suffered by the Group in accordance with the rules and regulations of PBC.

- (b) Loan Services

Founder Finance will provide RMB loan services to the Group pursuant to the Financial Services Agreement.

The interest rates to be charged by Founder Finance for the provision of Loan Services to the Group will be determined by the Company and Founder Finance with reference to the interest rates of PBC from time to time and the prevailing market conditions. The interest rates on the Loan Services offered by Founder Finance to the Group will not be higher than those offered by other PRC financial institutions. Founder Finance can offer the Group up to a 10% discount to the benchmark interest rate. No security over the assets of the Group will be granted in respect of the Loan Services offered by Founder Finance.

(c) Miscellaneous Financial Services

Founder Finance will provide the Miscellaneous Financial Services to the Group in accordance with the permitted scope prescribed under the PRC financial policies and the Management Methods for Group Finance Companies (企業集團財務公司管理辦法) pursuant to the Financial Services Agreement. Handling fees will be charged by Founder Finance for the Miscellaneous Financial Services provided to the Group pursuant to the Financial Services Agreement.

The handling fees to be charged by Founder Finance in connection with the Miscellaneous Financial Services will be determined with reference to the market rates of similar services as promulgated by PBC and will not be higher than those offered by other PRC financial institutions to the Group.

The handling fees payable by the Group to Founder Finance in connection with the Miscellaneous Financial Services in aggregate shall not exceed HK\$1 million on an annual basis.

- (d) the Group may obtain financial services from other financial institutions in addition to those provided by Founder Finance pursuant to the Financial Services Agreement.
- (e) Under the Financial Services Agreement, the Group will have a right of set off such that, in the event of any default by Founder Finance in respect of amounts deposited with it by the Group and causing it not being able to recover such deposits, the Group will be able to offset the amounts owing from the Group to Founder Finance against the amounts due to the Group from Founder Finance. Likewise, in the event of any default in repayment by the Group in respect of loans procured from Founder Finance, Founder Finance will be able to offset the amounts deposited with it by the Group against the amounts owing from the Group to Founder Finance.

## 5. Condition Precedents

The Financial Services Agreement is conditional upon:

- (a) approval by the Independent Shareholders at the SGM;
- (b) approval by the Board, and the board of directors of Founder Finance and Peking Founder;
- (c) a PRC legal opinion on the legality of the Financial Services Agreement, issued by a reputable PRC law firm to the satisfaction of the Company; and
- (d) any other relevant approvals as may be required for the Financial Services Agreement to take effect.

## 6. Termination

The Financial Services Agreement shall not be terminated by any of the parties unilaterally.

In addition to the default events provided by the Contract Laws of the PRC, the Financial Services Agreement will be terminated with immediate effect if Founder Finance fails to satisfy any operation condition (as currently required by the CBRC) as follows:

- (a) the capital adequacy ratio is not less than 10%;
- (b) the non-performing assets ratio is not more than 4%;
- (c) the bad loan ratio is not more than 5%;
- (d) the asset loss reserve adequacy ratio is not less than 100%;
- (e) the loan loss reserve adequacy ratio is not less than 100%;
- (f) the liquidity ratio is not less than 25%;
- (g) the self-owned fixed assets to total capital ratio is not more than 20%;
- (h) the short term securities investment to total capital ratio is not more than 40%;
- (i) the long term investment to total capital ratio is not more than 30%;
- (j) the borrowed capital to total capital ratio is not more than 100%; or
- (k) the guarantee risk exposure to total capital ratio is not more than 100%.

Upon termination of the Financial Services Agreement, the Group may withdraw its deposits with Founder Finance at any time. Should there be any outstanding loans owing from the Group pursuant to the Loan Services, the Group may negotiate with Founder Finance with regard to the loan repayment schedule.

## 7. Proposed Caps

The Board proposed the following caps in respect of (i) the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with Founder Finance; and (ii) the maximum annual handling fees in connection with the Miscellaneous Financial Services during the Term pursuant to the Financial Services Agreement:

<b>Subject matter</b>	<b>Proposed Caps</b>	<b>Basis of determination of the Proposed Caps</b>
(a) Deposit Services	RMB100 million, RMB110 million and RMB121 million on a daily basis for the three years ending 31 December 2013, respectively	There has been no similar transaction between the Group and Founder Finance prior to the date of this announcement. The Proposed Deposit Cap has been determined with reference to a number of factors including (i) the increasing asset scale and anticipated amounts of the Group available for deposit; (ii) the expected amount of interest income from Founder Finance compared with interest income that could otherwise be obtained by placing deposits with other commercial banks; (iii) the control of financial risks in selecting financial services providers; and (iv) the strategies for treasury management of the Company taking into account the business development plans and financial needs of the Group.
(b) Aggregate handling fees in connection with the Miscellaneous Financial Services	HK\$1 million on an annual basis	There has been no similar transaction between the Group and Founder Finance prior to the date of this announcement. The proposed cap for the aggregate handling fees in connection with the Miscellaneous Financial Services on an annual basis has been determined with reference to (i) the historical aggregate amounts of handling fees paid to independent commercial banks in the PRC; (ii) the market rates of similar services as promulgated by PBC; and (iii) the operation and financial needs of the Group in the coming years.

## 8. The Guarantee by Peking Founder

Peking Founder has provided the Guarantee to the Company in the Financial Services Agreement, pursuant to which Peking Founder has undertaken to the Company that:

- (a) it will maintain its controlling interest in Founder Finance and ensure that Founder Finance will operate under its prescribed scope of business;
- (b) it shall use its best endeavours and all probable and reasonable means to ensure that Founder Finance will fulfil its obligations under the Financial Services Agreement;

- (c) in the event that Founder Finance has difficulties in repaying any money to the Group, Peking Founder will increase the working capital of Founder Finance in order to enable it to fulfil its obligations under the Financial Services Agreement; and
- (d) Peking Founder undertakes and warrants to compensate the Group jointly and severally with Founder Finance for all the financial losses (including but not limited to the Group's deposits, interests and related expenses incurred) caused by Founder Finance's breaches or potential breaches of PRC laws and regulations, or by it having or potentially having any major operational problems or difficulties with liquidity, or by its non-performance of any terms or default under the Financial Services Agreement.

## **REASONS FOR AND BENEFITS OF THE FINANCIAL SERVICES AGREEMENT**

The main reasons for the Company to enter into the Financial Services Agreement with Founder Finance are as follows:

- (a) PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. Founder Finance is a non-banking financial institution approved and regulated by PBC and CBRC, and is authorised to provide various kinds of financial services to Peking Founder and its member companies in the PRC, including deposit-taking and loan services;
- (b) the use of Founder Finance as a vehicle to manage the funds of the Group would facilitate a more efficient deployment of funds between members of the Group;
- (c) the interest rates on the Deposit Services and the Loan Services offered, and the handling fees in connection with the Miscellaneous Financial Services charged by Founder Finance to the Group will be equal to or more favourable than, on a case by case basis, those offered to the Group by any third party;
- (d) Founder Finance is regulated by PBC and CBRC, and it provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities;
- (e) the Group is expected to benefit from Founder Finance's better understanding of the Group's operations which should render more expedient and efficient services than other commercial banks in the PRC;
- (f) the Guarantee will provide security and comfort to the Group by reducing the risks which the Group may be exposed to in the event of default of Founder Finance under the Financial Services Agreement;
- (g) pursuant to the relevant regulations of PBC and CBRC, the customers of Founder Finance are limited to members of the Peking Founder Group and its associates, which effectively reduce the risks that Founder Finance may otherwise be exposed to if its customers include other entities unrelated to Peking Founder;

- (h) the arrangements under the Financial Services Agreement would promote liquidity among the Group, enhance the overall ability of the Group to repay debts, and assist in monitoring and controlling financial risks;
- (i) the arrangements under the Financial Services Agreement would save financial costs, and accordingly increase the profitability of the Group; and
- (j) the arrangements under the Financial Services Agreement would allow for prompt and accurate monitoring and regulation of the application of funds within the Group.

The Directors (excluding the independent non-executive Directors whose views shall be based on the opinion of the independent financial adviser) consider that the terms of the Financial Services Agreement have been negotiated on an arm's length basis and on normal commercial terms, and the transactions contemplated thereunder and the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors whose views shall be based on the opinion of the independent financial adviser) also believe that the risk profile of Founder Finance, as a financial services provider to the Group, is no greater than that of independent commercial banks in the PRC. As far as the Directors are aware, Founder Finance has established stringent internal control measures to ensure effective risk management and compliance with all relevant laws and regulations.

In assessing the financial risks involved in placing deposits with Founder Finance, the Directors (excluding the independent non-executive Directors whose views shall be based on the opinion of the independent financial adviser) have taken into account the following factors:

- (a) the operations of Founder Finance are subject to the supervision of PBC and CBRC and are regulated by the relevant PRC financial services rules and regulations;
- (b) Founder Finance has established internal control and risk management systems in accordance with the relevant PRC financial services rules and regulations, to ensure the safe and stable operation of fund management;
- (c) Founder Finance shall ensure the prudent management of its business, the strict compliance with the risk control indicators for financial institutions issued by the CBRC, and that its monitoring indicators such as the gearing ratio and the liquidity ratio have also complied with the requirements of the CBRC;
- (d) The Company shall regularly review the ratio of the Group's deposit and loans with Founder Finance so as to evaluate the risk of placing deposits with Founder Finance;



- (e) in addition to the default events provided by the Contract Laws of the PRC, the Financial Services Agreement will be terminated with immediate effect if Founder Finance fails to satisfy any operation condition (as currently required by the CBRC) as follows:
- (i) the capital adequacy ratio is not less than 10%;
  - (ii) the non-performing assets ratio is not more than 4%;
  - (iii) the bad loan ratio is not more than 5%;
  - (iv) the asset loss reserve adequacy ratio is not less than 100%;
  - (v) the loan loss reserve adequacy ratio is not less than 100%;
  - (vi) the liquidity ratio is not less than 25%;
  - (vii) the self-owned fixed assets to total capital ratio is not more than 20%;
  - (viii) the short term securities investment to total capital ratio is not more than 40%;
  - (ix) the long term investment to total capital ratio is not more than 30%;
  - (x) the borrowed capital to total capital ratio is not more than 100%; or
  - (xi) the guarantee risk exposure to total capital ratio is not more than 100%; and
- (f) the Guarantee providing security and comfort to the Group by reducing the risks which the Group may be exposed to in the event of default of Founder Finance under the Financial Services Agreement.

Since Mr Zhang Zhao Dong, Professor Xiao Jian Guo and Professor Wei Xin are all directors of Peking Founder, they abstained from voting on the resolutions in respect of the Financial Services Agreement and the Proposed Caps. Save as the Directors mentioned above, none of the Directors has other material interests in the Financial Services Agreement. The Independent Board Committee comprising all the independent non-executive Directors, namely Mr Li Fat Chung, Dr Hu Hung Lick, Henry and Ms Wong Lam Kit Yee, has been established to consider the terms of the Deposit Services and the Proposed Deposit Cap, and to advise the Independent Shareholders as to whether the terms of the Deposit Services and the Proposed Deposit Cap are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its shareholders as a whole. No member of the Independent Board Committee has any material interest in the Deposit Services and the Proposed Deposit Cap.

## LISTING RULES IMPLICATIONS

### Continuing Connected Transactions

Peking Founder was a controlling Shareholder holding approximately 32.49% of the issued share capital of the Company. As Founder Finance is an indirect wholly-owned subsidiary of Peking Founder, Peking Founder and Founder Finance are connected persons of the Company. Accordingly, the Financial Services Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under the Listing Rules.

Since the Loan Services are on normal commercial terms (or better to the Group) where no security over the assets of the Group will be granted in respect of the financial assistance given by Founder Finance, the Loan Services are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

As each of the applicable percentage ratios in respect of the handling fees in connection with the Miscellaneous Financial Services is on an annual basis less than 5% and the annual consideration is less than HK\$1,000,000, the Miscellaneous Financial Services will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Deposit Services are more than 5% and the total value of the Deposit Services is over HK\$10,000,000, the Deposit Services and the Proposed Deposit Cap are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An SGM will be convened to obtain the Independent Shareholders' approval regarding the Deposit Services and the Proposed Deposit Cap. A circular containing, among others, (i) details of the Financial Services Agreement and the transactions contemplated thereunder and the Proposed Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice by the independent financial adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders on or before 20 December 2010 in accordance with the Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save and except Peking Founder (a controlling shareholder holding approximately 32.49% of the issued share capital of the Company and has control or is entitled to exercise control over the voting rights of its Shares) and its associates who will abstain from voting at the SGM, no other Shareholder is required to abstain from voting on the resolution in relation to the Deposit Services and the Proposed Deposit Cap to be approved by way of poll at the SGM.

An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services and the Proposed Deposit Cap.

## **Discloseable Transactions**

As the applicable percentage ratios in respect of the Deposit Services are more than 5% but less than 25%, the Deposit Services also constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and are therefore subject to the notification and announcement requirements under Rule 14.34 of the Listing Rules.

## **INFORMATION ON THE GROUP**

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

## **INFORMATION ON FOUNDER FINANCE**

Founder Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of Peking Founder established in the PRC since September 2010 with the approval of PBC. It is subject to the supervision of CBRC. According to its business licence, it is authorised to provide the Group with all the services set out in the Financial Services Agreement.

As at the date of this agreement, the registered capital of Founder Finance was RMB3 billion. As at 31 October 2010, Founder Finance also had a total asset value of approximately RMB300.2 million which included liquid assets (such as bank deposits and central bank reserves) of approximately RMB294.0 million.

Founder Finance is subject to stringent regulations and is regulated by PBC and CBRC. CBRC's supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. To ensure compliance with the applicable laws and regulations, CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on group finance companies.

## **DEFINITIONS**

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

“associates”	has the same meaning as ascribed thereto in the Listing Rules
“Board”	the board of Directors of the Company
“CBRC”	中國銀行業監督管理委員會 China Banking Regulatory Commission

“Company”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Deposit Services”	the deposit and related services to be provided by Founder Finance to the Group under the Financial Services Agreement
“Directors”	the directors of the Company
“Financial Services Agreement”	the financial services agreement in relation to the Deposit Services, the Loan Services, and the Miscellaneous Financial Services entered into between the Company and Founder Finance on 3 December 2010
“Founder Finance”	北大方正集團財務有限公司 (PKU Founder Group Finance Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of Peking Founder
“Group”	the Company and its subsidiaries
“Guarantee”	the guarantee provided by Peking Founder in favour of the Company in the Financial Services Agreement
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Board comprising Mr Li Fat Chung, Dr Hu Hung Lick, Henry and Ms Wong Lam Kit Yee, being all the independent non-executive Directors, to be established for the purpose of advising the Independent Shareholders on the terms of the Deposit Services and the Proposed Deposit Cap
“Independent Shareholders”	Shareholders other than Peking Founder and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Loan Services”	the loan and related services to be provided by Founder Finance to the Group under the Financial Services Agreement

“Miscellaneous Financial Services”	apart from the Deposit Services and the Loan Services, financial services in accordance with the permitted scope prescribed under the PRC financial policies and the Management Methods for Group Finance Companies (企業集團財務公司管理辦法), pursuant to the Financial Services Agreement
“PBC”	中國人民銀行 People’s Bank of China
“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, the controlling shareholder of the Company, holding approximately 32.49% of the issued share capital of the Company
“Peking Founder Group”	Peking Founder and its subsidiaries
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this announcement
“Proposed Caps”	the Proposed Deposit Cap and the Proposed Handling Fee Cap
“Proposed Deposit Cap”	the proposed maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with Founder Finance during the Term pursuant to the Financial Services Agreement
“Proposed Handling Fee Cap”	the proposed cap for the aggregate annual handling fees in connection with the Miscellaneous Financial Services
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be held to consider and approve, among other things, the Deposit Services and the Proposed Deposit Cap
“Shareholders”	registered holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Term”

the term of the Financial Services Agreement, which shall become effective on 1 January 2011 (or upon the satisfaction of all condition precedents, if their satisfaction are later than the said date) until 31 December 2013

By order of the Board of  
**Founder Holdings Limited**  
**Zhang Zhao Dong**  
*Chairman*

Hong Kong, 3 December 2010

*As at the date of this announcement, the Board comprises the executive Directors of Mr Zhang Zhao Dong (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Mr Liu Xiao Kun (President), Professor Wei Xin, Mr Chen Geng and Mr Xie Ke Hai, and the independent non-executive Directors of Mr Li Fat Chung, Dr Hu Hung Lick, Henry and Ms Wong Lam Kit Yee.*

\* *For identification purpose only*