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Goldpac Group Limited

金邦達寶嘉控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3315)

CONTINUING CONNECTED TRANSACTIONS

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The Directors are pleased to announce that the Mutual Supply Agreement is proposed to be entered into among the Company, GDSHK, GL and Gemalto, pursuant to which, (i) the Goldpac Entities will supply to Gemalto with the Goldpac Products; and (ii) Gemalto will supply to the Goldpac Entities with Gemalto IC Chips.

IMPLICATIONS OF THE LISTING RULES

Gemalto is a substantial shareholder of the Company and hence a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Mutual Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.04(9) of the Listing Rules) calculated by reference to the annual caps is/are less than 5%, the supply of the Goldpac Products from the Goldpac Entities to Gemalto as contemplated under the Mutual Supply Agreement is subject to reporting and announcement requirements, but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.04(9) of the Listing Rules) calculated by reference to the annual caps is/are more than 5% and more than HK\$10,000,000, the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated under the Mutual Supply Agreement is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the EGM, the Company will seek the Independent Shareholders' approval for (i) the Mutual Supply Agreement and the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated thereunder; and (ii) the proposed annual caps for each of the three years ending 31 December 2016, 2017 and 2018, respectively for the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated under the Mutual Supply Agreement.

A circular containing, among other things, further details of the Mutual Supply Agreement and the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated therein, the letter from the Independent Board Committee and the recommendation from the independent financial adviser on the terms of the Mutual Supply Agreement, together with a notice convening the EGM, will be despatched to the Shareholders within 15 business days after publication of this announcement.

CONTINUING CONNECTED TRANSACTIONS

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THE MUTUAL SUPPLY AGREEMENT

Background

The Group has been purchasing certain microprocessors composed of an electronic component embedding a card operating system, also known as IC chips, from Gemalto. On 15 November 2013, a module supply agreement was entered into among the Company, GDSHK, GL and Gemalto, pursuant to which, Gemalto supplied to and the Group purchased from Gemalto or its affiliates Gemalto IC Chips for a term from 4 December 2013 until 31 December 2015.

Parties

- (a) the Company;
- (b) GDSHK;
- (c) GL; and
- (d) Gemalto

Term and Termination

The Mutual Supply Agreement will be for a term of three years taking effect from 1 January 2016 and ending on 31 December 2018, which may be terminated by any party by serving a 90-day written notice on other parties from 1 January 2017.

Transactions

Pursuant to the Mutual Supply Agreement:

- (a) *Supply of the Goldpac Products from the Goldpac Entities to Gemalto*

The Goldpac Entities will supply to Gemalto with, among others, the following products:

- (i) banking card modules;
- (ii) cardbody; and
- (iii) personalisation machines, equipments, spare parts and relevant consumables.

(collectively, the “**Goldpac Products**”).

- (b) *Supply of Gemalto IC Chips from Gemalto to the Goldpac Entities*

Gemalto will supply to the Goldpac Entities with Gemalto IC Chips.

Price Determination

Under the Mutual Supply Agreement, the price shall be determined in accordance with the following pricing principles:

- (a) the Goldpac Entities should offer terms and conditions to Gemalto on normal commercial terms in relation to the supply of Goldpac Products to Gemalto; and
- (b) Gemalto should offer Gemalto IC Chips to the Goldpac Entities at the most favourable terms and conditions as compared with the terms and conditions offered by Gemalto to other customers of Gemalto in Asia (the “**Most Favourable Terms Arrangements**”).

In accordance with the internal pricing policy of the Group:

- (a) In order to ensure that the sale price of the Goldpac Products is no less favourable to the Group than terms available to independent third parties,
 - (i) the finance department will calculate the base price of the Goldpac Products based on the manufacturing costs, together with the logistic costs, value-added tax and other administrative costs; and
 - (ii) the sales department will benchmark the profit margins for different Goldpac Products based on:
 - (1) price quotations provided to independent third party customers for comparable products; and
 - (2) prices offered by independent third party suppliers in the market for comparable products.

The final price quotation to Gemalto shall be agreed between Gemalto and the Goldpac Entities after arm’s length negotiation and, in any event, not lower than the manufacturing costs or procurement costs of the relevant Goldpac Products. After computing the final price quotation as above, the relevant sales officer will present the price quotation, other relevant terms of price quotation and the relevant supporting documents of the profit margin benchmarking for final review and approval by the head of the sales department.

- (b) In order to ensure that the purchase price of Gemalto IC Chips is no less favourable to the Group than terms available from independent third parties,
 - (i) in the course of the procurement of Gemalto IC Chips and prior to the issue of purchase order for Gemalto IC Chips, the procurement department will obtain quotations from at least two independent third party suppliers from the Group's approved list of suppliers to ensure the final procurement price of Gemalto IC Chips is fair and reasonable with reference to the prevailing market price;
 - (ii) the Group will develop internal IC chips procurement plans based on market forecasts, customer demand, technical performance, production planning and other factors, and the procurement plans will be submitted to the respective head of the marketing department, sales department, technical department and planning department; and
 - (iii) the procurement officer will prepare purchase orders in accordance with IC chips procurement plans, and submit the purchase orders to the procurement supervisor and procurement manager for final review and approval. The procurement supervisor and procurement manager will compare the quotation of Gemalto with quotation provided by independent third party suppliers to ensure the purchase price of Gemalto IC Chips is no less favourable to the Group than terms available from independent third parties.

The final price and other terms of the purchase order for Gemalto IC Chips are subject to mutual agreement by the management of Gemalto and the Goldpac Entities after arm's length negotiation and based on normal commercial terms.

Other Principal Terms of the Mutual Supply Agreement

- (a) The Goldpac Entities have the first priority right in the PRC, Hong Kong, Taiwan and the Macau Special Administrative Region of the People's Republic of China to supply to Gemalto with the Goldpac Products or products similar to the Goldpac Products under the same terms and conditions offered by other suppliers of Gemalto.
- (b) Pursuant to the Most Favourable Terms Arrangements, Gemalto undertakes to notify the Goldpac Entities in writing immediately after it has entered into an agreement with any customer in Asia with terms and conditions more favourable than those offered to the Goldpac Entities and to offer to the Goldpac Entities such more favourable terms and conditions.
- (c) Gemalto must pay the Goldpac Entities in relation to the purchase of Goldpac Products in accordance with the payment terms as specified in each purchase order issued by Gemalto and accepted by the Goldpac Entities.

- (d) The Goldpac Entities must pay Gemalto in relation to the purchase of Gemalto IC Chips within 120 days upon receipt of invoice or such other time as the parties may agree.

SUPPLY OF THE GOLDPAC PRODUCTS FROM THE GOLDPAC ENTITIES TO GEMALTO

Historical Transaction Value

For each of the three years ended 31 December 2013, 2014 and 2015, respectively, Gemalto did not purchase any Goldpac Product from the Group.

Annual Caps

In view of the PRC government's continuous promotion of national IC chips and the OSCCA (Office of State Commercial Cryptography Administration) algorithm in the PRC, Gemalto seeks to commence its national IC chip card business segment and therefore purchase from the Goldpac Entities the Goldpac Products pursuant to the Mutual Supply Agreement given that the Group is certified by the OSCCA and is one of the first suppliers involved in the trials conducted in the PRC's banking industry since 2014 regarding the utilisation of national IC chips and the OSCCA algorithm in financial payment cards.

The annual caps proposed by the Company for the three years ending 31 December 2016, 2017 and 2018, respectively, are as follows:

Transactions	Year ended 31 December 2016 (RMB) Cap	Year ended 31 December 2017 (RMB) Cap	Year ended 31 December 2018 (RMB) Cap
Supply of the Goldpac Products from the Goldpac Entities to Gemalto	<u>12,000,000</u>	<u>16,000,000</u>	<u>20,000,000</u>

The Company has determined the annual caps for the three years ending 31 December 2016, 2017 and 2018, respectively, based on the expected increase in the amount of purchases to be made by Gemalto from the Goldpac Entities for the Goldpac Products for each of the three years ending 31 December 2016, 2017 and 2018, respectively, mainly due to the PRC government's further promotion of national IC chips and the OSCCA algorithm.

SUPPLY OF GEMALTO IC CHIPS FROM GEMALTO TO THE GOLDPAC ENTITIES

Historical Transaction Value

The actual value of transactions for three years ended 31 December 2013, 2014 and 2015 (by reference to the financial information from the management accounts of the Company for the year ended 31 December 2015), were as follows:

Transactions	Year ended 31 December 2013 (RMB) Actual Value	Year ended 31 December 2014 (RMB) Actual Value	Year ended 31 December 2015 (RMB) Actual Value
Supply of Gemalto IC Chips from Gemalto to the Goldpac Entities	<u>491,848,000</u>	<u>590,048,000</u>	<u>618,835,000</u>

The annual caps proposed by the Company for the three years ending 31 December 2016, 2017 and 2018, respectively, are as follows:

Transactions	Year ended 31 December 2016 (RMB) Cap	Year ended 31 December 2017 (RMB) Cap	Year ended 31 December 2018 (RMB) Cap
Supply of Gemalto IC Chips from Gemalto to the Goldpac Entities	<u>750,000,000</u>	<u>750,000,000</u>	<u>750,000,000</u>

The Company has determined the annual caps for the three years ending 31 December 2016, 2017 and 2018, respectively, based on:

- (i) the historical amount of purchases made by the Goldpac Entities from Gemalto for Gemalto IC Chips for the three years ended 31 December 2013, 2014 and 2015, respectively;
- (ii) the expected increase in the amount of purchases to be made by the Goldpac Entities from Gemalto for Gemalto IC Chips for each of the three years ending 31 December 2016, 2017 and 2018, respectively, due to the continuous growth of the sales of smart cards of the Company and thus the demand for Gemalto IC Chips of the Company; and

- (iii) the estimated decrease in the market price of Gemalto IC Chips for each of the three years ending 31 December 2016, 2017 and 2018, respectively, due to the decrease in material costs and the price competition among suppliers of IC chips.

REASONS FOR THE TRANSACTIONS

Supply of the Goldpac Products from the Goldpac Entities to Gemalto

As Gemalto seeks to commence its national IC chip card business segment and therefore purchase from the Goldpac Entities the Goldpac Products pursuant to the Mutual Supply Agreement in view of the PRC government's continuous promotion of national IC chips and the OSCCA algorithm, the Directors believe that the supply of the Goldpac Products under the Mutual Supply Agreement will generate economic returns for the Group.

Supply of Gemalto IC Chips from Gemalto to the Goldpac Entities

As (i) the supply of Gemalto IC Chips under the Mutual Supply Agreement will be conducted on an arm's length basis and on terms no less favourable to the Group than those offered by other suppliers, (ii) from the past long-term business relationship between Gemalto and the Group, Gemalto has an established track record of being a reliable and stable supplier, and (iii) in the event that the Mutual Supply Agreement is not entered into or is terminated, other suppliers, both overseas and in the PRC, of comparable procurement terms and quality are available to the Group, the Directors consider that (a) the Group is able to source its IC chips without reliance on Gemalto, (b) the procurement from Gemalto which will be conducted based on the Most Favourable Terms Arrangements is in the interest of the Group and the Shareholders as a whole, and (c) the purchase of Gemalto IC Chips from Gemalto is for the mutual benefit of and reflecting commercial reality for both Gemalto and the Group.

IMPLICATIONS OF THE LISTING RULES

Gemalto is a substantial shareholder of the Company and hence a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Mutual Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.04(9) of the Listing Rules) calculated by reference to the annual caps is/are less than 5%, the supply of the Goldpac Products from the Goldpac Entities to Gemalto as contemplated under the Mutual Supply Agreement is subject to reporting and announcement requirements, but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.04(9) of the Listing Rules) calculated by reference to the annual caps is/are more than 5% and more than HK\$10,000,000, the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated under the Mutual Supply Agreement is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the EGM, the Company will seek the Independent Shareholders' approval for (i) the Mutual Supply Agreement and the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated thereunder; and (ii) the proposed annual caps for each of the three year ending 31 December 2016, 2017 and 2018, respectively, for the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated under the Mutual Supply Agreement.

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Mutual Supply Agreement and the proposed annual caps for each of the three year ending 31 December 2016, 2017 and 2018, respectively, for the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated under the Mutual Supply Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL INFORMATION ABOUT THE GROUP

The Group is principally engaged in providing secured solutions and services for financial institutions, government agencies and other organisations that issue financial cards.

GDSHK is principally engaged in sales of cards carrying personal identity such as banking card, social insurance card and other payment solutions services provided by GL outside the PRC.

GL is principally engaged in providing total secured solutions and services for financial institutions, government agencies and other organisations that issue financial cards.

GENERAL INFORMATION ABOUT GEMALTO

Gemalto is a company incorporated under the laws of Netherlands and whose shares are listed and traded on NYSE Euronext Amsterdam and NYSE Euronext Paris, respectively. According to information available from public source, Gemalto is principally engaged in the provision of digital security solution, which caters for the expanding needs for personal mobile services, payment security, authenticated cloud access, identity and privacy protection, eHealthcare and eGovernment efficiency, convenient ticketing and dependable machine-to-machine (M2M) applications. Gemalto also develops secure embedded software and secure products which it then designs and personalises. Gemalto's platforms and services manage these products, the confidential data they contain and the trusted end user services made possible.

GENERAL

Confirmation from Directors

The Directors (including the independent non-executive Directors) are of the view that:

- (a) the Mutual Supply Agreement (i) will be conducted on normal commercial terms, or on terms no less favourable to the Group than those available to and from independent third parties under prevailing market conditions; (ii) will be entered into in the ordinary and usual course of business of the Group; and (iii) is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (b) the proposed annual caps for each of the three years ending 31 December 2016, 2017 and 2018, respectively, mentioned above are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The terms of the Mutual Supply Agreement have been negotiated, and will be conducted on, an arm's length basis and on normal commercial terms between the parties involved.

Director’s Interest

None of the Directors has a material interest in the Mutual Supply Agreement and none of them were therefore required to abstain from voting on the resolutions passed or to be passed by the board of Directors in respect of the Mutual Supply Agreement and the transactions contemplated thereunder.

EGM

A circular containing, among other things, further details of the Mutual Supply Agreement and the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated therein, the letter from the Independent Board Committee and the recommendation from the independent financial adviser on the terms of the Mutual Supply Agreement, together with a notice convening the EGM, will be despatched to the Shareholders within 15 business days after publication of this announcement.

As at the date of this announcement, Gemalto is a substantial shareholder of the Company holding approximately 18.34% of the issued share capital of the Company. Gemalto, its associates and those who are involved or interested in the Mutual Supply Agreement are required to abstain from voting on the resolutions to be proposed at the EGM in respect of the Mutual Supply Agreement and the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated thereunder, and the annual caps for each of the three years ending 31 December 2016, 2017 and 2018 for the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated thereunder.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Company”	Goldpac Group Limited (金邦達寶嘉控股有限公司), a limited liability company incorporated in Hong Kong whose Shares are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;

“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Mutual Supply Agreement, the supply of Gemalto IC Chips from Gemalto to the Goldpac Entities as contemplated thereunder and the relevant proposed annual caps;
“GDSHK”	Goldpac Datacard Solutions Company Limited (金邦達數據有限公司), a company incorporated under the laws of Hong Kong with limited liability on 8 May 2000 and a wholly-owned subsidiary of the Company;
“Gemalto”	Gemalto N.V., a company incorporated under the laws of the Netherlands, whose shares are listed and traded on NYSE Euronext Amsterdam and NYSE Euronext Paris with stock code “GTO”, and a connected person of the Company;
“Gemalto IC Chips”	the IC chips supplied by Gemalto;
“GL”	金邦達有限公司 (Goldpac Limited) (formerly known as 珠海市金邦達保密卡有限公司), a wholly foreign owned enterprise established under the laws of the PRC with limited liability on 21 June 1995 and a wholly-owned subsidiary of the Company;
“Goldpac Entities”	the Company, GDSHK and GL;
“Goldpac Products”	has the meaning given to it under the section headed “The Mutual Supply Agreement”;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC ;
“Independent Board Committee”	an independent board committee of the board of Directors comprising all the independent non-executive Directors, who have no material interest in the Mutual Supply Agreement; namely, Mr. Mak Wing Sum Alvin, Mr. Zhu Lijun and Mr. Liu John Jianhua;
“Independent Shareholders”	the Shareholders who are not involved or interested in the Mutual Supply Agreement;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong Special Administrative Region of the People’s Republic of China, Taiwan and the Macau Special Administrative Region of the People’s Republic of China;
“Mutual Supply Agreement”	the supply agreement to be entered into among the Goldpac Entities and Gemalto;
“RMB”	Renminbi yuan, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	the shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

By Order of the Board
Goldpac Group Limited
LU Run Ting
Chairman and Executive Director

Hong Kong, 14 January 2016

As at the date of this announcement, the executive Directors are Mr. Lu Run Ting, Mr. Hou Ping, Mr. Lu Runyi and Mr. Lu Xiaozhong; the non-executive Directors are Mr. Christophe Jacques Pagezy and Mr. Ting Tao I; and the independent non-executive Directors are Mr. Mak Wing Sum Alvin, Mr. Zhu Lijun and Mr. Liu John Jianhua.