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## BUSINESS

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### OVERVIEW

We are a leading supplier of financial cards (in the form of magnetic strip cards or smart cards), card personalisation services and on-site card issuance system solutions in Greater China. According to the Frost & Sullivan Report, we are the only financial card manufacturer and the only card personalisation services provider in the PRC certified by all six of the leading worldwide payment card organisations (Visa, MasterCard, American Express, UnionPay, JCB and Diners Club). Prior to establishing our Group, Chairman Lu, through GIHL, commenced providing financial cards to commercial bank since 1993. Our first subsidiary, Goldpac Secur-Card, was established in 1995 and was then held partially by GIHL, and after its establishment, commenced providing financial cards to commercial banks. Since the establishment of our Group, we have developed expertise in the business of card manufacturing and providing card production solutions relating to these products. According to the Frost & Sullivan Report, in Greater China, we were the largest provider of financial cards in terms of sales value and the third largest in term of sales volume for the year ended 31 December 2012, and we were the largest card personalisation services provider in Greater China in terms of both sales value and sales volume for the year ended 31 December 2012. The financial card and card personalisation market segments in Greater China have experienced rapid growth in recent years, particularly in terms of sales value. According to the Frost & Sullivan Report, in Greater China, the total sales value of financial cards has grown from RMB665.2 million in 2008 to RMB2.4 billion in 2012, with a CAGR of 37.5%, while the total sales value of card personalisation services has grown from RMB56.3 million in 2008 to RMB281.6 million in 2012, with a CAGR of 49.5%. We are also a major provider of on-site card issuance system solutions with a market share of 23.6% in terms of sales value during the same period.

We are principally engaged in providing secured solutions and services for financial institutions, government agencies and other organisations that issue financial cards. We deliver total solutions to our customers through a portfolio of products and services in three market segments: (i) manufacture and sales of magnetic strip cards and smart cards; (ii) provision of personalisation solutions services; and (iii) provision of on-site card issuance system solutions and related solutions services; and which accounted for 80.6%, 10.3% and 9.1% of our total turnover for the six months ended 30 June 2013. Our ability to provide products and services across these three complimentary segments, allows us to be a one stop shop for issuers of financial cards. Card issuers can fully outsource their card issuance functions to us by purchasing our full suite of products and services to assist them from initial planning and design of new card products to production all the way through personalisation and issuance of cards and final delivery to end users. Our customers can also purchase our products and services a la carte, depending on their needs.

We provide a complete range of card products to our customers, which are used for a variety of purposes such as financial cards (including debit cards, credit cards, charge cards and social insurance cards with financial functions), prepaid cards, public transportation cards and highway toll cards. While we manufacture and sell cards with both magnetic strip and smart card technologies, we are increasingly selling more and more smart cards due to the industry trend of smart card migration, which payment card organisations like Visa, MasterCard, American Express, UnionPay and JCB are promoting through the EMV standards body EMVCo. Smart card migration in the PRC is further promoted by government policies, such as The Opinions of the People's Bank of China to Promote Applications of Financial IC Cards\* (《中國人民銀行關於推進金融IC卡應用工作的意見》) issued by PBOC on 11 March 2011 to officially set a nationwide timeline for migration to smart cards by 1 January 2015. Our personalisation services generally include a series of customised services involved in the design, packaging and distribution of financial cards. Our personalisation services involve the process of loading personal data or premium value applications onto the memory or microcontroller chips embedded in smart cards. We also emboss and print customised card bodies for our customers, and customise the associated packaging and card carriers used to deliver cards to end users. We are also a distributor in the PRC of on-site card issuance system solutions. Our solutions include central card issuance systems for high-volume industrial size card personalisation operations and desktop card issuance systems for rapid issuance at low volumes near where our end users are located, such as within bank branches. Our on-site card issuance system solutions include, among others, including

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consulting and planning, provision of equipment, software customisation, equipment installation and training and after-sales service and repairs.

Within the PRC, we serve many of the leading national and regional state-owned and joint-stock commercial banks, as well as foreign banks. Our customer base has wide geographic coverage across the PRC. Within Greater China, we also serve a number of banks in Hong Kong and Macao, as well as banks outside of Greater China, including Vietnam, Mongolia and the Philippines. In terms of public sector customers, in the PRC, we provide social insurance cards for a number of municipal jurisdictions, as well as cards for public transportation and toll facilities for transportation agencies in a number of cities and regions. We also provide cards for certain corporate and retail clients.

We believe that strong research and development capabilities are important to ensure our success and our ability to develop application solutions to meet the changing needs of financial institutions, government departments or agencies and business enterprises. Such capabilities also enable us to continue to upgrade our existing application solutions in response to the changes in technological developments. As at 30 June 2013, we had 262 staff members engaged in research and development and design and nearly all of them received tertiary education. Furthermore, we also collaborate with several universities across China, such as Wuhan University and Beijing Institute of Technology Zhuhai College in which we provide financial support to faculty and student researchers in their development of new technologies relating to our business. Such technologies include various software applications and applets for use with our smart card products. These research relationships provide us with a source of new technology as well as a source for recruitment of new research and development staff.

The manufacture of our card products and the provision of our personalisation services, primarily occur at our facilities in Zhuhai of Guangdong province and Shanghai. To meet increasing demand for our products and services, we are currently expanding our manufacturing and personalisation services facilities in Zhuhai, which we expect to commence operations in the fourth quarter of 2013 or the first quarter of 2014. We provide our products, solutions and services throughout the PRC via our subsidiaries and branch companies in Zhuhai, Guangzhou, Beijing, Shanghai, Jiangsu, Kunming and Hunan.

We have experienced rapid growth during the Track Record Period. Our turnover for the years ended 31 December 2010, 2011 and 2012, was RMB357.2 million, RMB444.3 million and RMB676.6 million, respectively, representing a CAGR of 37.6%, and for the six months ended 30 June 2012 and 2013, was RMB275.7 million and RMB540.4 million, respectively. Our profit after tax for the years ended 31 December 2010, 2011 and 2012, was RMB53.4 million, RMB48.1 million and RMB115.1 million, respectively, representing a CAGR of 46.8%, and for the six months ended 30 June 2012 and 2013, was RMB43.0 million and RMB81.1 million, respectively.

### OUR COMPETITIVE STRENGTHS

We believe that the following principal competitive strengths have contributed to our success and will continue to enable us to compete effectively and to capitalise on future growth opportunities.

#### **Our Group is widely recognised within our industry, both in China and internationally, for our high quality products and services**

We are widely recognised by our customers, industry groups and governmental entities for our high quality products and services. We are the only financial card manufacturer and the only financial card personalisation solutions provider in the PRC certified by all six of the leading worldwide card issuing organisations (Visa, MasterCard, American Express, UnionPay, JCB and Diners Club). These certifications are recognition of our ability to meet rigorous international standards for our business and operations and allows us to serve a wide variety of financial institutions and facilitates our growth internationally. We have also received numerous awards in China and abroad for our products and

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services which demonstrates recognition of the quality of our business. See “—Awards and Accreditations”.

### **We provide a comprehensive product portfolio and integrated customer solutions**

We are a leading supplier in Greater China (including the PRC, Hong Kong and Macao) of financial cards (in the form of magnetic strip cards or smart cards) card personalisation services and on-site card issuance system solutions. Since our establishment, we have developed expertise in the business of card manufacturing and providing card production solutions relating to these products. According to Frost & Sullivan Report, in Greater China, we are the largest provider of financial cards in terms of sales value and the third largest in term of sales volume for the year ended 31 December 2012. We are, according to the Frost & Sullivan Report, the largest card personalisation services provider in Greater China in terms of both sales value and sales volume for the year ended 31 December 2012. We are also a major provider of on-site card issuance system solutions with a market share of 23.6% in terms of sales value during the same period.

We have integrated our operations and are equipped with consulting, product design, manufacturing, card personalisation, data processing and fulfillment capabilities that enable us to offer a one-stop total solution to our customers. We offer to our customers (i) design and manufacture of payment products such as smart cards, magnetic strip cards and other types of financial cards, (ii) card personalisation and fulfillment services to securely encode our payment products with end user data and to issue and deliver such products directly to end users, and (iii) provision of on-site card issuance system solutions including central and desktop card issuance equipment. This complimentary portfolio of products and services gives us the ability to serve a range of customers from clients requiring one or more of our offerings to clients seeking comprehensive total solutions for their payment product needs.

To maintain our competitive advantage and to strengthen the relationship with our customers, we take a proactive approach in providing value-added services to our customers by working closely with them to provide advice or initiating new ideas on product design or manufacturing techniques that result in more efficient and cost effective solutions. For example, in order to enhance the efficiency of our card fulfillment services and minimises errors in delivery logistics, we invited China Post to setup an official on-site branch post office that is directly adjacent to our primary card personalisation centre in Zhuhai. By establishing efficient card fulfillment operations, we are able to provide fast and customised fulfillment services. For example, we have two personalisation centres, which are located in Zhuhai and Shanghai. Both of our personalisation centres have the capability to handle ultra-rush card issuance orders and issue new cards that are ready for shipment to card holders within eight hours from our receipt of an ultra-rush order. We have standard procedures to handle ultra-rush orders. When we receive an ultra-rush order, our customer service personnel will immediately communicate with the customer to confirm the specific requirements of the order such as required timing, card type and quantity. Once the details are confirmed, we determine whether we have in inventory the blank card stock required for the order or if we will need to produce the required card stock on our card production lines. Based on the requirements of the order, we determine its urgency and make adjustments in our card production lines and/or personalisation lines as needed to prioritise the processing of the ultra-rush order. Our customer service personnel will monitor the status of the ultra-rush order at each stage and arrange for delivery of the finished products as soon as possible. We believe our ability to develop innovative and customised applications and services to respond to and anticipate customers’ needs enables us to be more adaptable to changes in the economic and market conditions experienced by any individual market or industry sector.

### **We have a stable, strong and diverse customer base**

Since we began our operations, we have cultivated a stable, strong and diverse customer base. Within the PRC, we serve many of the leading national and regional state-owned and joint-stock commercial banks, as well as foreign banks. Our customer base has wide geographic coverage across the PRC. Within Greater China, we also serve a number of banks in Hong Kong and Macao, as

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well as banks outside of Greater China including in Vietnam, Mongolia and the Philippines. In terms of public sector customers, in the PRC we provide social insurance cards for a number of municipal jurisdictions, as well as cards for public transportation and toll facilities for transportation agencies in a number of cities and regions. We also provide cards for certain corporate and retail clients. We believe that diversifying our client base helps reduce our concentration risk and opens opportunities for the growth and expansion of our business.

### **Our strong research, design and development capabilities are a solid foundation for our innovation and adoption of advanced technologies**

To maintain our strategic leadership position, we have continued to introduce new and innovative products into the markets in which we operate. In terms of product design, our design innovations have been recognised by professional institutions. See “—Awards and Accreditations”.

We have a strong ability to design and develop a broad range of secured payment products and solutions. With our strong product development capability, we are able to offer product development solutions by turning our customers’ functional requirements and the specifications of the related secured payment products into prototypes and developing the final products for mass production. Our cooperation with our customers during product development enables us to cultivate a close relationship with, and develop a deeper understanding of, the requirements of our key customers. We believe this capability can strengthen our relationship and cooperation with these customers.

As at 30 June 2013, we had 262 staff members engaged in research, development and design, and nearly all of them have received tertiary education. Our research, design and development staff performs a variety of activities including card design, designing personalisation solutions and developing and testing card operating system software and card personalisation data processing software. As at 30 June 2013, we had 14 utility model patents and 17 software copyrights relating to our business operations, all of which are registered in the PRC. We also have entered into cooperation agreements with several universities in China, such as Wuhan University and Beijing Institute of Technology Zhuhai College, to help further supply us with sources of new technology and research and development talent. See “— Research, Design and Development”.

We have received a number of awards and official recognition from a number of professional bodies and governmental authorities. See “— Awards and Accreditations”. Members of our research and development staff also regularly provide advice to industry organisations in the development of industry standards for smart card production. We believe this demonstrates our competitive edge over other secured payment solutions providers in terms of quality and technology advancement.

### **We have an experienced management team with extensive industry experience**

Members of our senior management team have an average of more than 20 years of operational and management experience in the banking and payment solutions outsourcing industries. Under the leadership of Chairman Lu, who has over 20 years experience in the banking and card industry, we have developed into one of the leading providers of secure payment solutions for the payment systems market in the Asia-Pacific region. We believe that our experienced senior management team provides us with deep industry and operational knowledge and enables us to understand the needs and trends of the market, develop and manage efficient operations and enable us to formulate and execute sound business strategies. Further information about our Directors and senior management, see “Directors and Senior Management” in this prospectus.

## **OUR BUSINESS STRATEGIES**

### **Continue to work closely with our customers and other market participants to develop innovative, value-added solutions that satisfy the needs of our customers.**

We seek to deepen our relationships with our existing customers, as this will likely offer us additional sales opportunities, understand their needs and anticipate changing industry trends. We

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will place emphasis on customer relations and assign particular sales personnel and engineering support personnel to each of our key customers. We will continue to organise and invite our customers to participate in marketing events to create opportunities for dialogue with our customers regarding their needs and our capabilities. We seek to establish and maintain long-term partnerships with such customers by:

- consulting with our customers regarding their strategic direction with respect to payment services to ensure that we proactively anticipate their needs and assemble the solutions necessary to meet those needs;
- emphasising collaboration between our sales and marketing team and engineering team to provide quality services;
- employing systematic procedures to measure customer satisfaction and to identify and address strengths and weaknesses;
- providing broad choice of total solutions that satisfy our customers' requirements; and
- introduce our customers to new and innovative solutions to address their needs.

We also intend to continue to deepen our relationships with our suppliers and other market participants, especially with those that provide us with key components for our total solutions through close collaboration in product development. We intend to work with our key suppliers in developing their product roadmap by providing input relating to our customers' requirements.

### **Expand our research and development efforts on new payment technologies.**

The secured payments solutions business is dynamic and fast-evolving. We must continually innovate to be able to provide the most advanced and innovative products and solutions to our customers. In order to accomplish this and support our future growth, we consider it crucial to further strengthen our research and development capabilities. We plan to recruit additional professionals to join our research and development team, purchase more equipment, and provide additional training to our engineering staff to capture new technologies and create registrable, proprietary intellectual property for our Group. We expect to focus much of our research and development efforts on developing new products and services, such as security features, smart card applications, mobile payment technologies and personalisation services. We plan to strengthen our research and development team by recruiting additional qualified and experienced professionals from the industry, and we plan to add approximately 45 more research and development personnel by the end of 2016.

### **Expand our existing production facilities and capabilities.**

In order to satisfy increasing demand for our financial card products, we intend to increase our manufacturing capacity at our existing manufacturing site in Zhuhai, Guangdong province, by establishing a new production facility and our personalisation services capacity at our existing site in Shanghai. See “— Facilities”. We have finished construction of our new production building in June 2013 in Zhuhai, which we expect to commence operations in the fourth quarter of 2013 or the first quarter of 2014, and expect to commence our new personalisation lines in Shanghai in the fourth quarter of 2013 or the first quarter of 2014. We also expect to purchase additional machinery to increase automation in our facilities to increase efficiency and manage increasing labour costs. We may also seek to widen our geographic coverage in the PRC by opening one or more new card personalisation centres in the PRC, subject to market demand, in order to be geographically closer to the customers of our card personalisation clients which allows for faster delivery and reduction of our logistics costs. See “— Expansion Plan”.

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### Selectively Expand Overseas Markets

As at 30 June 2013, we have a number of customers outside of Greater China, including banks in Vietnam, Mongolia and the Philippines. Building on our experience working in overseas markets, we will seek to selectively expand our customer base in Vietnam, Mongolia and the Philippines and in other markets outside of Greater China.

### OUR PRODUCTS, SOLUTIONS AND SERVICES

We are principally engaged in providing secured solutions and services for financial institutions, government agencies and other organisations that issue financial cards. We deliver total solutions to our customers through a portfolio of products and services that include: (i) manufacture and sales of magnetic strip cards and smart cards; (ii) provision of personalisation solutions services; and (iii) provision of on-site card issuance system solutions and related solutions services.

The following table sets forth the turnover attributable to each of our major products and services and the respective percentage of total turnover for the periods indicated:

	Year ended 31 December						Six months ended 30 June				
	2010		2011		2012		2012		2013		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%	
Sales of											
Magnetic strip cards and smart cards . . . .	274,753	76.9	311,878	70.2	499,227	73.8	187,877	68.1	435,763	80.6	
Personalisation service . . . . .	52,924	14.8	69,950	15.7	81,859	12.1	37,954	13.8	55,660	10.3	
On-site card issuance system solutions . . .	29,479	8.3	62,427	14.1	95,523	14.1	49,904	18.1	48,950	9.1	
<b>Total . . . . .</b>	<b>357,156</b>	<b>100.0</b>	<b>444,255</b>	<b>100.0</b>	<b>676,609</b>	<b>100.0</b>	<b>275,735</b>	<b>100.0</b>	<b>540,373</b>	<b>100.0</b>	

Set out below is a description of our major products and services.

### Magnetic Strip Cards and Smart Cards

We design and manufacture a wide range of magnetic strip card and smart card products for our customers, primarily for use as financial cards (including debit cards, credit cards, charge cards and social insurance cards), as well as for other purposes such as public transportation cards and highway toll cards. Magnetic strip cards use a more mature technology to store cardholder information on a band of magnetic material on the card, while smart cards, also known as IC cards, are embedded with IC chips that have significantly greater data storage capacity than a magnetic strip and can be programmed with a variety of security features that can interface with smart card compatible ATMs and POS terminals to authenticate transactions. See “Industry Overview — The Greater China Financial Card Market — Card Types and Migration of Technology”.

Owing to the long history in the market and relatively lower cost of production, magnetic strip cards remain a widely-adopted type of financial card particularly for use with ATMs and POS terminals. Consequently, we continue to produce and sell magnetic strip cards in accordance with customer demand, despite the lack of security features and other disadvantages due to the physical limitations of this legacy technology. However, the technological advantages of smart cards in terms of security, functionality and expandability are leading to a growth in the popularity and acceptance of

more advanced smart cards. The development of the EMV standard in the late 1990s, which created industry standards for smart card technology, has facilitated the adoption of smart cards worldwide. Adoption of national regulation and standards for smart card technology, such as the PBOC 3.0 and The Opinions of the People's Bank of China to Promote Applications of Financial IC Cards\* (中國人民銀行關於推進金融IC卡應用工作的意見) issued by PBOC on 11 March 2011 to officially set a nationwide timeline for migration to smart cards in the PRC by 1 January 2015, have also fostered migration from the magnetic strip cards to smart cards and driven increased growth in the demand for smart cards. We carry a number of different types of smart card products with various specifications in terms of features such as storage capacity and software applications to meet the needs of a variety of customers.

### **Personalisation Services**

Personalisation services generally include a series of customised services involved in the design, packaging and distribution of financial cards. Our personalisation services involve the process of loading personal data or premium value applications onto the IC chips embedded in smart cards. We also emboss and print customised card bodies for our customers, and customise the associated packaging and card mailers. We also handle card fulfillment for many of our customers, in which we prepare and distribute personalised products directly to end users on behalf of our customers. Furthermore, our personalisation services clients who also engage us for card manufacturing services can fully outsource the inventory management of their cards to us. Such clients do not need to keep inventories of their cards, as we are able to handle their card inventory through all steps of the card issuance process from initial manufacture to personalisation up through arrangement of delivery to end users. With our suite of personalisation services, we can offer both complete and partial card fulfillment and inventory management outsourcing solutions to our customers based on their business needs.

The principal personalisation services offered by our Group during the Track Record Period include:

- Inventory management;
- Data processing;
- Magnetic strip encoding;
- Embossing;
- Personal data loading; and
- Irregular / rush card processing.

### **On-Site Card Issuance System Solutions**

We provide on-site card issuance system solutions to our customers in Greater China. We provide these solutions to financial institutions and government agencies across the PRC that require on-site card issuance capabilities. For example, based on our understanding, some of our larger customers may have established their own personalisation centres to take advantage of economies of scale and need to outfit their facilities with card issuance systems. Other customers may outsource their personalisation functions entirely to us, but need to maintain the ability to instantly issue cards in low volumes at local retail outlets. Our solutions include central card issuance systems for high-volume industrial size card personalisation operations and desktop card issuance systems for rapid issuance at low volumes near end users, such as within bank branches. Our on-site card issuance system solutions include, among other things, services such as consulting and planning, provision of equipment, software customisation, equipment installation and training and after-sales service and repairs.

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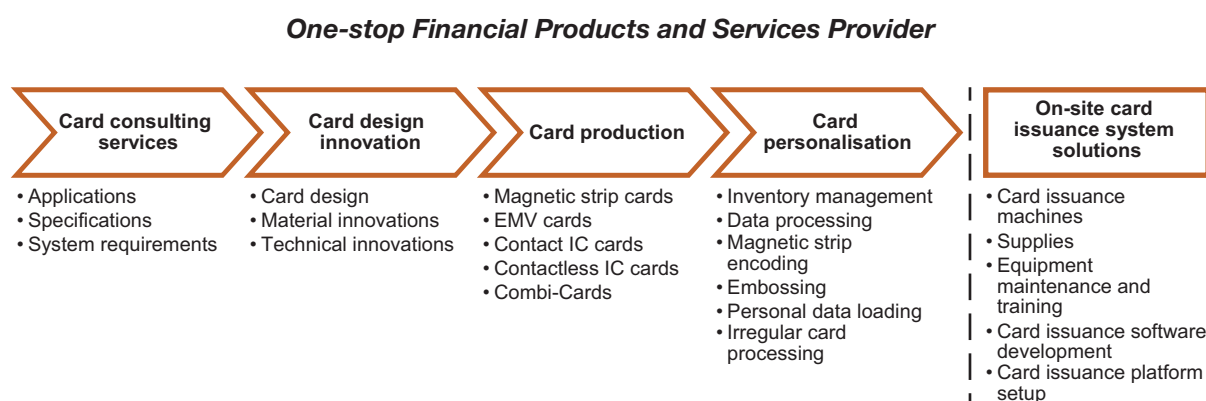
The following table summarizes principal types of products and services that are components of the on-site card issuance system solutions distributed by our Group during the Track Record Period:

Category	Products / Services
Consulting and Planning	<ul style="list-style-type: none"> <li>● Smart card personalisation migration consultation</li> <li>● Pre-installation consultation</li> <li>● Card issuance procedures</li> <li>● Management systems</li> <li>● System configuration</li> <li>● Risk management</li> </ul>
Equipment	<ul style="list-style-type: none"> <li>● Central card issuance equipment</li> <li>● Card delivery systems</li> <li>● Envelope insertion systems</li> <li>● Desktop card issuance equipment</li> <li>● Accessories</li> </ul>
Software	<ul style="list-style-type: none"> <li>● Operating software customisation</li> </ul>
Installation and Training	<ul style="list-style-type: none"> <li>● On-site systems installation</li> <li>● Testing</li> <li>● On-site training</li> </ul>
After-sales	<ul style="list-style-type: none"> <li>● On-site hardware and software repairs and maintenance</li> <li>● 24/7 on-site customer service available on-call in select cities in the PRC and in Hong Kong</li> <li>● Distribution of spare parts and consumables</li> <li>● Back-up/emergency card production services at Goldpac's personalisation centres</li> </ul>

### BUSINESS MODEL

We are principally engaged in providing total secured solutions and services for financial institutions, government agencies and other organisations that issue financial cards through a portfolio of products and services in three market segments: (i) manufacture and sales of magnetic strip cards and smart cards; (ii) provision of personalisation solutions services; and (iii) distribution of on-site card issuance system solutions and related solutions services. Our ability to provide products and services across these three complimentary segments, allows us to be a one stop shop for issuers of financial cards.

The following diagram illustrates our business model:





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Card issuers can fully outsource their card issuance functions to us by purchasing our full suite of products and services to assist them from planning and designing of new card products in accordance with customer specifications to personalisation and production of cards all the way through arrangement of delivery to end users. For example, most of our customers that purchase our blank smart cards also engage us to provide personalisation services to load cardholder data (such as the cardholder's name, account number and expiration date) onto these cards and arrange for logistics to ship them out to the end users. Our customers can also purchase our products and services a la carte, depending on their needs. A total solution may include one or more of the following steps:

- *Card consulting services*, where we work with our customers to determine what applications, specifications and system requirements are needed for their card solution.
- *Card design innovation*, where we help design the visual appearance of the card such as preparation of artwork, customisation of card shapes and selection of special materials used in our specialty card products, such as translucent cards, perfume cards and foil cards.
- *Card production*, where we manufacture blank magnetic strip cards and smart cards.
- *Card personalisation*, where we encode magnetic strips or IC chips with cardholder information and, for smart cards, develop and load custom software applications, and prepare them for delivery to our card issuing customers or directly to the end users. Our customers usually engage us to personalise cards that we also have produced, but customers may also engage us to personalise blank cards sourced elsewhere.
- *On-site card issuance system solutions*, where we supply various types of card issuance equipment to customers based on their needs. Such systems solutions range from desktop instant issuance machines for low volume instant issuances, to industrial grade card issuance equipment for customers who want to handle personalisation in-house.

### BUSINESS PROCESS

We supply our products to our customers on a project-by-project basis and our sales are made on the basis of individual production orders or contracts. Most of our sales are made pursuant to a tender process.

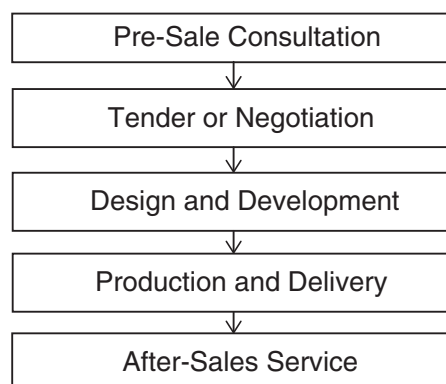
Our Group's sales functions are conducted by our sales teams based in our headquarters in Zhuhai and at our subsidiaries and branches in the PRC and Hong Kong. Our product development functions are centralised at our headquarters in Zhuhai, whereby we mainly receive orders or enquiries from customers, conduct our feasibility study, conclude production or product development contracts with customers, and implement production development and trial production through our subsidiary, Goldpac Secur-Card, before we arrange the most proximate subsidiary with suitable production facilities for commercial production and delivery of our products to our customers and the provision of after-sale services. We manage our sales by regions inside and outside of the PRC. Our domestic sales team is led by Mr. R.Y. Lu, our executive Director and senior vice president, and our overseas sales are managed by our overseas sales director who is based in Hong Kong. The sales agreements relating to our products that are exported to overseas customers are usually entered into by our Hong Kong subsidiary, Goldpac Datacard. Such products are generally first shipped to Goldpac Datacard in Hong Kong, and then are in turn shipped from Hong Kong to our customers.

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Our model for sales includes the following stages: (1) pre-sale consultation; (2) securing contracts by tender or negotiation; (3) design and development; (4) production and delivery; and (5) after-sale service. These stages are generally applicable to our sales for each of our reporting segments. These stages are summarised in the following chart:



### **Pre-sale Consultation**

The products and services we offer as part of our total solutions are principally driven by the evolving needs of our customers. The members of our sales and marketing and engineering teams maintain regular contact with our prospective customers to keep abreast of their future plans with respect to secure payment solutions, new requirements for products and services and potential upcoming requests for tender. We use this information generally to help us guide our research and development efforts and maintain a pipeline of new products that meet our customers' needs, as well as help us be in a position to prepare and submit bids as soon as possible after a request for tender is publicly announced. We also introduce our new products and services to our customers through various channels, including an annual product catalogue and a monthly e-mail newsletter.

### **Securing Contracts by Tender or Negotiation**

For products, services and solutions which are to be provided to banks and financial institutions in the PRC and to governmental agencies, there will normally be a tender process whereby payment solution providers are required to submit a detailed bidding proposal. Customers who require the submission of a bidding proposal will normally set out the technical requirements and specifications of the projects in their request for tender. After our marketing or sales department identifies an appropriate request for tender, our sales department will prepare a bid.

The tender process for PRC banks and financial institutions typically proceeds as follows. The requests for tender are usually made by the head office of a particular bank or financial institution, and our bidding proposal will be submitted to such head office (although in some cases we participate in requests for tender made by regional branches of such banks or financial institution). Successful bidding vendors will enter into framework agreements with the bank or financial institution that made the request for tender (typically six or seven vendors). If our bidding proposal is successful we will usually enter into a framework agreement with the head offices of our customers, which will provide that we, along with the other successful bidding vendors, will become preferred suppliers to the regional branches of such bank or financial institution. Such contracts have a term of one to two years, and are usually renewable subject to mutual agreement of the contractual parties. As advised by the PRC legal advisers of our Company, Commerce & Finance Law Offices, the framework agreements are legally binding. Each regional branch will then typically enter into purchase orders with one or two of the preferred suppliers of their choosing. Consequently, we must negotiate with each regional branch to secure purchase orders from such branch. In the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our subsidiary Goldpac Secur-Card had 16, 16, 12 and 16 successful bids, respectively, out of 23, 23, 17 and 19 invitations to tender from

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head offices of banks and financial institutions in the PRC, respectively, that we participated in, and represent a success rate of 69.6%, 69.6%, 70.6% and 84.2%, respectively.

Similarly, for the provision of social insurance cards and transportation cards to local PRC governmental authorities, the tender offers are generally made at the provincial or city level of the relevant agency, and our bidding proposal will be submitted to the agency at such level. If our bidding proposal is successful, we will enter into a framework agreement with the agency that produced the tender offer. We will then need to negotiate with the local branches of such agency to obtain purchase orders.

For solutions which are to be provided for business enterprises or other banks or financial institutions that do not engage in a tender process, such as financial institutions located outside of the PRC and some privately-owned companies, after various pre-sale consultation, our sales and marketing teams will negotiate the terms of our solutions provision which includes, among other things, consideration and payment terms.

We generally obtain our sales contracts by a tender process. The following table sets forth the turnover attributable to tender projects and non-tender projects and the respective percentage of total turnover for the periods indicated:

	Year ended 31 December						Six months ended 30 June	
	2010		2011		2012		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Turnover attributable to								
Tender projects <sup>(1)</sup> . . . .	307,461	86.1	394,689	88.8	629,894	93.1	519,250	96.1
Non-tender projects <sup>(2)</sup> . . . . .	49,695	13.9	49,566	11.2	46,715	6.9	21,123	3.9
<b>Total</b> . . . . .	<b>357,156</b>	<b>100.0</b>	<b>444,255</b>	<b>100.0</b>	<b>676,609</b>	<b>100.0</b>	<b>540,373</b>	<b>100.0</b>

*Notes:*

- (1) Mostly for banks, financial institutions and other state-owned companies and governmental agencies.
- (2) Mostly for privately-owned companies and overseas companies.

### Design and Development

For projects to be obtained through a tender process, based on the technical requirements and specifications of the projects set out by our customers, we design, as appropriate, the relevant cards, software and hardware, and develop the installation and operational procedures for the customer's evaluation. During the course of the bidding proposal preparation, a detailed plan will be prepared in accordance with the requirements of the prospective customer or current customer, setting out, among other things, card and system specifications, installation procedures, personalisation requirements, a design plan, costs structure, quantities and estimates. The design plan will be submitted to the prospective customers or current customers for selection, approval and amendment, if necessary.

For projects to be obtained through negotiations, our sales and marketing and engineering teams will develop and design application solutions tailored to the customer's needs and technical specifications by evaluating the customer's actual requirements. Subsequently, a detailed project design plan setting out, among other things, system specifications, installation procedures, costs structure and estimates, is then prepared and submitted to our customer for the proposed solution. After an agreement is signed, we will commence the development of products, including laying out a quality control plan, formulating the detailed standard operating procedures for the production of the products, making drawings for products, producing product prototype, factory setup, preparing the list of suppliers, preparation of templates and machinery for production, workforce distribution and training, and finalising the product packaging and logistics plans.

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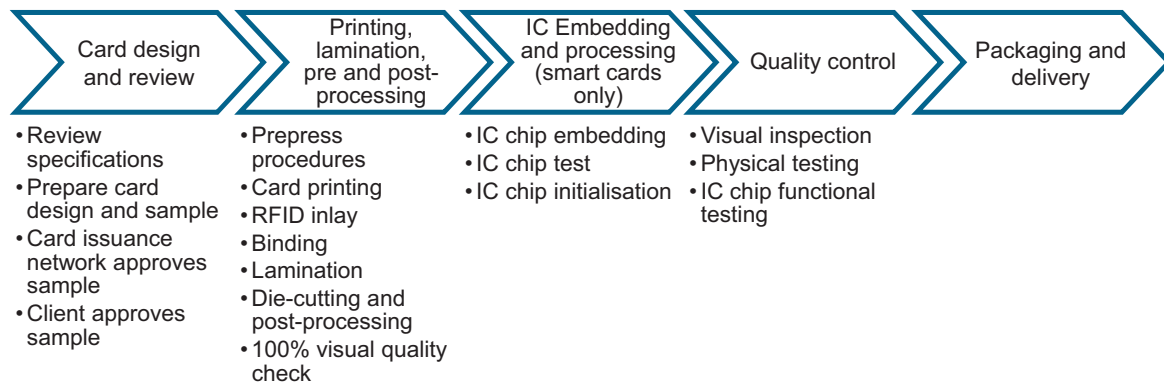
The entire production process, factory setup, quality control plan and product sample are subject to strict and regular inspections and modifications by our product design engineers and customers before the products and standard operating procedures can be certified by our customers for mass productions. Payment card organisations review and approve samples of new cards used with such organisation's payment network. Representatives from our customers and payment card organisations will pay various visits to our relevant production facilities to assess the production line setting, testing and quality control procedures, management and monitoring system.

### Production and Delivery

After the product development stage, we begin the commercial production of the products and/or commence provision of services in accordance with the type of product or service set forth in the framework agreements and/or purchase orders, as applicable. Our Directors confirm that none of our customers have cancelled or deferred any production orders after entering into purchase orders with us throughout the Track Record Period, which had a material impact on our business, financial condition and results of operations.

#### *Magnetic Strip Cards and Smart Cards*

The following diagram sets forth the production process of our magnetic strip cards and smart cards:

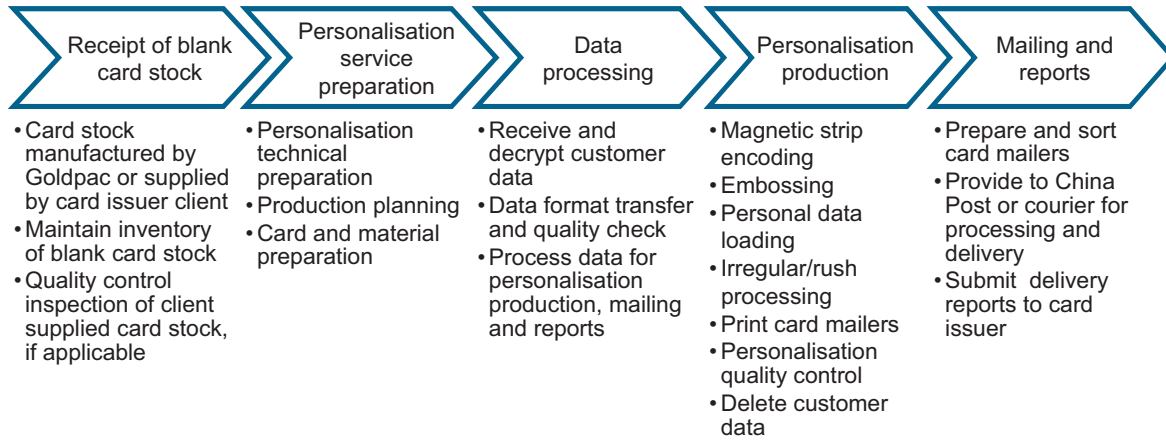


We begin our production process of magnetic strip cards and smart cards with card design and review, in which we review our client's card specifications and then design and prepare a card sample. If the card will be used with a payment card organisation's payment network, then the payment card organisation must approve the sample. We would then obtain the client's approval of the sample before we enter into the production phase, which includes printing and lamination of the cards. For smart cards, there is an additional step of IC chip embedding and processing. Once the cards have been produced, the finished cards are subject to quality control inspection and testing and finally packaging and delivery to our client or to our personalisation centre for clients who have engaged us to personalise the finished cards.

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### **Personalisation Services**

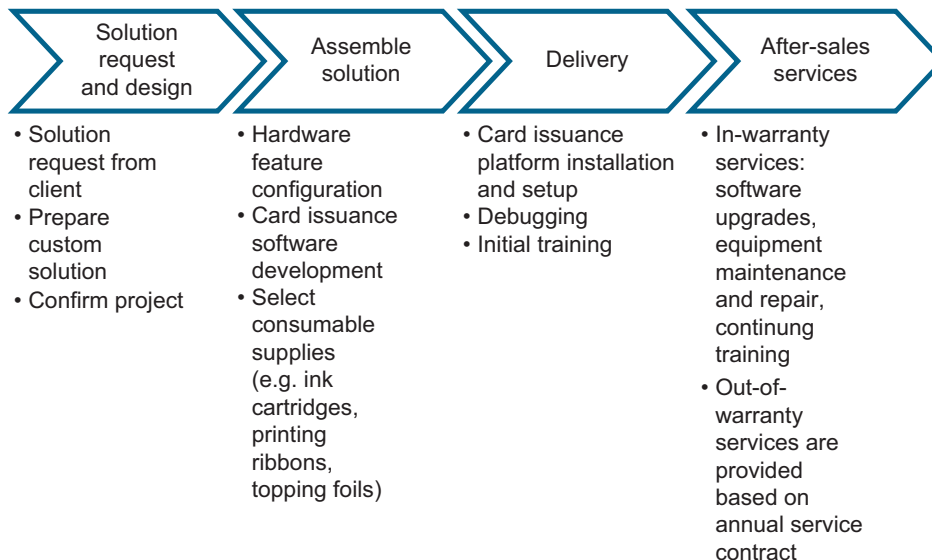
The following diagram sets forth the process of our personalisation services:



Personalisation services begin with the receipt of blank card bases without any personal information either directly from our clients or, for clients who have also engaged us for card manufacturing, from our card production facility. Blank card bases received from our clients are subject to additional inspection to ensure that their quality is satisfactory to produce a satisfactory finished product. Once the card bases are received, we make technical preparations for our personalisation services including production planning and materials preparations. Our clients then transfer encrypted cardholder data to us via dedicated data lines to our secure data processing centre, which only certain of our authorised staff can access. The cardholder data is decrypted in the data processing centre and then processed and loaded into our personalisation equipment in preparation for loading onto the cards. Our personalisation equipment then loads the relevant data onto the card's magnetic strip or IC chip, as the case may be, as well as emboss certain information like the cardholder's name and account number onto the card surface. Once personalisation for a batch of cards is complete, we will delete the personal data from the our systems. We also print the personalised mailers that accompany the personalised cards and prepared finished card mailings to provide to China Post or express courier for final processing and delivery to the individual cardholder.

### **On-Site Card Issuance System Solutions**

The following diagram sets forth the process of our provision of on-site card issuance system solutions:



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Clients that require on-site issuance system solutions will provide us with a solution request specifying their card issuance system needs. We then prepare a custom solution and confirm the proposed solution with the client. Once confirmed, we assemble the solution by compiling the necessary hardware, software and consumable supplies. We then deliver and install the solution at the customer's site. We will also provide debugging and initial training on-site at the time of installation. Finally, we provide both in-warranty and out-of-warranty services.

We have purchased card issuance machines from an international supplier (the "**International Supplier**") for over ten years for integration into our card issuance system solutions. We are also one of the distributors of the International Supplier's card issuance machines in the PRC and, as confirmed by our Directors, have contracted with the International Supplier for such distribution since the commencement of the distributorship. We strive to distinguish ourselves from such other distributors and the International Supplier through adding value to our customers by providing customised solutions and additional features tailor-made for our customers.

The provision of on-site card issuance system solutions to our customers requires custom work beyond the mere sale of equipment that we purchase from the International Supplier. For example, the International Supplier provides machines to us with standardised features, which may not be sufficient to meet the needs of our customers. Our research and development and design staff develop and implement tailor-made system software to customise the features of the machines used in our solutions to fit the specific requirements of our customers. Customers use our consulting and planning services to assemble appropriate solutions and design procedures and workflows using these systems that are complete, economical and efficient for our customers. We believe that our experience as both a provider of on-site card issuance system solutions in the PRC and as an end user of these same systems in our personalisation services centres gives us better local knowledge of how our customers use these systems and helps us anticipate their needs. Furthermore, we have a broad local servicing network in multiple locations in China, which allows us to provide after-sales services more quickly over a wider geographical area.

We entered into an international enterprise solutions provider agreement with the International Supplier pursuant to which we have agreed to purchase card issuance machines from them. The term of such agreement is currently two years expiring on 31 March 2014, and renewable at the International Supplier's discretion by prior written notice. Under such agreement, we are typically required to, among other things: (i) procure a minimum dollar amount of products from the International Supplier to satisfy an annual minimum purchase quota as specified in the agreement, (ii) provide customer support to customers in the PRC who purchase our card issuance system solutions that incorporate the International Supplier's card issuance machines, such as installation, training and repairing, (iii) not to design, manufacture, sell, promote, market or advertise, in the PRC, products that are competitive with the products we are purchasing from the International Supplier under the agreement without the International Supplier's prior consent; and (iv) provide various information to the International Supplier such as annual sales and marketing plans, sales forecasts, information about market conditions in the PRC and suggestions for modifications or improvements of the International Supplier's products. The International Supplier's sales of its products to us is non-exclusive, thus the International Supplier may sell its products to other parties. The International Supplier has the right to terminate the agreement by written notice for cause, such as where we fail to meet the minimum annual purchase quota as specified in the agreement. We achieved more than the annual minimum purchase quota for each contract year during the Track Record Period. We are also entitled to terminate this agreement at our discretion upon prior written notice. Since there are alternative sources of supply of card issuance machines readily available on the market which are comparable in terms of quality and pricing with those currently supplied by the International Supplier, we believe that our business, financial condition and results of operations will not be materially and adversely affected should the International Supplier no longer supply the card issuance machines to us.

In the event that we cannot renew the international enterprise solutions provider agreement with the International Supplier upon expiry of such agreement, we intend to procure card issuance

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machines from other card issuance machines suppliers. In such event, given that our proprietary system software can be adapted to work with card issuance machines of other suppliers, we will be able to customise the features of the machines sold by other suppliers to fit the specific requirements of our customers, so that we will be able to continue to offer on-site card issuance system solutions to our customers with minimum disruption to our business.

### **After-Sales Service**

Our after-sales services primarily relate to our provision of on-site card issuance system solutions. In accordance with the requests of our customers, we will send out staff to the sites of our customers where the card issuance systems are located for after-sale services, such as repair or reconfiguration of such systems. As a part of our after-sale services for our products, we provide hotline services to our customers to answer and resolve enquires regarding technical issues. When necessary, we can also dispatch our staff to customer locations to provide on-site service. Generally, we are able to have our service staff on-site for after-sale services without major delay after the call. Additionally, we regularly provide after-sales training and consulting sessions to update most of our customers regarding the latest technological developments relating to our products.

### **FACILITIES**

Our main office is currently located in Zhuhai, Guangdong Province, the PRC. Currently, our primary card manufacturing assembly lines, card personalisation centre, accounting department, sales and marketing department, research and development department and management are mainly located in our main office in Zhuhai. In order to provide timely support and services to our customers located in Shanghai and nearby areas, we also established a card personalisation centre in Shanghai in November 2007. We also have offices in Hong Kong, Beijing, Shenyang, Hangzhou, Nanjing, Xi'an, Guangzhou and Kunming.

#### ***Zhuhai facility***

Our main facility in Zhuhai has an aggregate site area of approximately 36,000 sq.m. and a total gross floor area of approximately 13,400 sq.m. In order to expand our business, we are in the process of establishing a new production facility at our main office site in Zhuhai, which, when fully completed, will occupy a total gross floor area of approximately 11,500 sq.m. The construction of the new plant building was completed in June 2013 and we expect to commence operations in the fourth quarter of 2013 or the first quarter of 2014. The new plant will primarily house smart card production lines. We plan to manufacture our existing products to the extent demand exceeds the capacity of our current facility as well as new products developed and commercially launched by us in the future at our new production facility. We have obtained both the land use right certificate and the building ownership certificate for our new production facility. We intend to use internally generated funds and bank borrowings to finance the investment cost of the new production facility.

#### ***Shanghai facility***

We have another facility in Shanghai, with a gross floor area of approximately 2,100 sq.m. Our Shanghai facility provides various services relating to personalisation such as data processing, embossing cards, and delivery to our customers located in Shanghai and eastern China. Our Shanghai facility operates 24 hours a day and 7 days a week to provide continuous services to our customers.

We intend to expand our Shanghai facility by leasing additional buildings, which occupy a gross floor area of approximately 860 sq.m. In August 2013 we signed a lease agreement with independent third parties for the additional buildings and recently commenced renovation of these buildings. The new buildings will be primarily for office, card personalisation services, storage and packaging use. We expect to commence operations at our Shanghai new facility in the fourth quarter of 2013 or the first quarter of 2014. See “—Expansion plan”.

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### *Usage of production capacity*

Currently we carry out all of our card manufacturing activities at our Zhuhai facility. We also carry out card personalisation activities at our Zhuhai and Shanghai facilities. Our production lines generally operate 24 hours a day. Our production employees generally work shifts of eight hours a day, 26 days per month.

The following table sets forth the designed card production capacity and actual card production volume and utilisation rates for magnetic strip cards in our Zhuhai facility for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
Designed card production capacity <sup>(1)</sup>				
(Units) . . . . .	185,477,217	207,382,927	180,709,807	70,805,549
Actual card production volume (Units) . . . . .	182,538,646	203,412,179	170,751,376	56,978,376
Utilisation rate <sup>(2)</sup> (%) . . . . .	98.4%	98.1%	94.5%	80.5%

*Notes:*

- (1) Our designed production capacity is calculated based on 26 working days per month, 24 hours per day, and taking into account short stoppages for equipment maintenance of around 2 hours per day. This figure is the weighted average of the production capacity based on the month of the year in which the production capacity was realised.
- (2) Our utilisation rate is calculated based on our actual production volume divided by our designed production capacity.

The following table sets forth the designed card production capacity and actual card production volume and utilisation rates for smart cards in our Zhuhai facility for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
Designed card production capacity <sup>(1)</sup> . . . . .	19,100,000	21,665,000	40,180,000	47,502,000
Actual card production volume (Units) . . . . .	17,145,570	20,580,482	39,978,906	45,632,660
Utilisation rate <sup>(2)</sup> (%) . . . . .	89.8%	95.0%	99.5%	96.1%

*Notes:*

- (1) Our designed production capacity is calculated based on 26 working days per month, 24 hours per day, and taking into account short stoppages for equipment maintenance of around 2 hours per day. This figure is the weighted average of the production capacity based on the month of the year in which the production capacity was realised.
- (2) Our utilisation rate is calculated based on our actual production volume divided by our designed production capacity.

Our designed card production capacity and utilisation rate for magnetic strip cards decreased in 2012 and six months ended 30 June 2013 because we shifted our focus away from production of magnetic strip cards and towards greater production of smart cards in response to the evolving market trend.

As for the production capacity of our card personalisation activities, since the customers of our card personalisation services generally have their specific requirements as to how such service should be performed, the total amount of work done on each type of cards would differ generally from one customer to another. Hence, as there were no standardised processes for our card personalisation services, our Directors consider that the production capacity for our card personalisation services could not be accurately ascertained and if assumptions were made solely for the purpose of calculating the production capacity of our card personalisation services, the resulting calculated production capacity would not be representative or meaningful.



**MIGRATION TO SMART CARDS**

The financial card industry in which we operate is undergoing a significant transformation from the widespread use of magnetic strip cards, which store data in a band of magnetic material on the card, to smart cards, which stores data on IC chips with more data storage capacity and sophisticated security features. This transformation is stimulated by new governmental policies and regulations that promote the advance and widespread adoption of smart card technologies in the financial card sector. For example, in March 2011, the PBOC issued *The Opinions of the People's Bank of China to Promote Applications of Financial IC Cards\** (中國人民銀行關於推進金融IC卡應用工作的意見), which officially sets a nationwide timeline for migration to smart cards in the PRC by 1 January 2015. In addition, the Hong Kong Monetary Authority announced in June 2011 that all financial cards issued in Hong Kong shall be upgraded to IC cards by the end of 2015.

These governmental policies created a favourable environment where we can expand our smart card business to fight for a larger market share despite the intense competition. Therefore, we have made a comprehensive business plan in response to these policies. For example, we actively communicate with our existing customers to better understand their smart card needs, which helps us to improve our sales and marketing plans and our production expansion plans relating to our smart card products. We also closely monitor our inventory level of IC chips, which is the major raw material for our smart card products, and set inventory targets for IC chips each month based on rolling six-month estimates of our expected orders, to guide our procurement plan for our smart card products. We will provide technical trainings to our research and development team in relation to the latest technology trends, especially the smart card application and new payment platform. We have added to our production facilities for smart cards and significantly increased our designed production capacity. For example, our designed card production capacity for smart cards increased from 21,665,000 units in 2011 to 40,180,000 units in 2012, and we expect to make further upgrades and other improvements to the Zhuhai and Shanghai facilities, including purchasing additional machinery to increase automation in both of these facilities to increase efficiency and counter-effect the increasing labour costs. See “— Expansion Plan”. After the expansion and upgrade, we expect that our aggregate designed production capacity for smart cards will increase to approximately 200 million units.

**EXPANSION PLAN**

In order to satisfy increasing demand for our financial card products, we intend to increase our manufacturing capacity by establishing a new production facility at our existing manufacturing site in Zhuhai, Guangdong province, and increase our personalisation services capacity at our existing site in Shanghai. We have finished construction of our new production building in June 2013 in Zhuhai, which we expect to commence operations in the fourth quarter of 2013 or the first quarter of 2014. We expect to commence operating our new personalisation lines in Shanghai in the fourth quarter of 2013 or the first quarter of 2014. We also expect to make further upgrades and other improvements to the Zhuhai and Shanghai facilities, including purchasing additional machinery to increase automation in both of these facilities to increase efficiency and manage increasing labour costs. We expect to complete our expansion projects by 2016. For information on related approvals and permits, see “— Property Interests — Approvals and permits”. We will continue to shift our focus away from magnetic strip cards and mainly towards greater production of smart cards. After the expansion and upgrade, we expect that our aggregate designed production capacity each year for card manufacturing will increase from our present annual capacity of approximately 221 million units as at 31 December 2012 to approximately 280 million units, among which will consist of approximately 80 million units for magnetic strip cards and approximately 200 million units for smart cards.

We plan to manage our production capacity growth by leveraging our experience in managing our existing production facilities and expanding our production capacity cost-efficiently. Our additional production capacity will mainly be applied to satisfy increasing customer demand of our

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products and services, especially smart cards and personalisation services. We expect to staff our new production facilities with certain of our existing management staff and employees, as well as new employees recruited from local labour market. We will also continue to provide various training to our employees to maintain a skilled employee pool. We believe that our existing suppliers have sufficient production capacities to provide raw materials, components and equipment that we require to facilitate our production capacity expansion. We will continue to examine our suppliers' production capacities and product quality to ensure that they will be able to support our production capacity growth as well as seek opportunities to engage new suppliers to diversify our supplier pool. With respect to legal compliance issues that may arise as we are growing, especially in relation to the financial card industry, we rely on our in-house legal team as well as outside counsel to help us addressing such issues, including complying with regulatory requirements for the financial card industry in the PRC. Furthermore, we plan to implement our existing quality control and product security systems at our new production facilities. See “— Quality Control and Product Security”.

The total estimated capital expenditures in relation to the expansion of our Zhuhai and Shanghai facilities, through the end of 2016, is approximately RMB266.5 million and RMB3.4 million, respectively, of which approximately RMB9.6 million and nil, respectively, had been spent up to 30 June 2013 for the acquisition of property, plant and equipment and funded by cash flows from our operations and bank borrowings. We expect to fund the remaining amounts by applying proceeds from the Global Offering. We believe we will need various governmental approvals in relation to our acquisition of property and construction of new plants. As advised by our PRC legal advisers, Commerce & Finance Law Offices, such governmental approvals may include, but are not limited to, project approvals, land use right certificates, planning and construction permits and environmental protection approvals. We have obtained both the land use right certificate and the building ownership certificate for our new production facility. See “— Property Interests — Approvals and permits”. We currently anticipate that the proceeds from the Global Offering will be sufficient to complete our expansion. However, in the event the allocated proceeds are insufficient, we expect to utilise cash generated from our operations to complete the remainder of the projects. See “Future Plan and Use of Proceeds — Use of Proceeds”.

As set out in “— Our Business Strategies — Selectively Expand Overseas Markets”, we will seek to selectively expand our customer base in Vietnam, Mongolia and the Philippines and in other markets outside of Greater China. Our overseas business development team is led by Chairman Lu and Mr. Hou Ping, our executive Directors. Both Chairman Lu and Mr. Hou have extensive experience in the banking or financial card markets outside of the PRC. Please see “Directors and Senior Management — Directors — Executive Directors” in this prospectus for the biography of each of Chairman Lu and Mr. Hou. We maintain a finance team with designated personnel to handle tax compliance matters on a day-to-day basis. This team working with the assistance of local consultants or advisors will also ensure our tax compliance in overseas markets that we will be expanding to and ensure our compliance with the relevant rules and regulations in such markets. Furthermore, our in-house legal team working with the assistance of outside counsel will work to ensure our legal compliance in different overseas jurisdictions. In terms of determining whether to expand in certain country or territory, we will consider factors such as the progression of migrating from magnetic strip cards to smart cards, the local rules and regulations relating to foreign investment and our business, and the presence and business development of our customers' in the relevant country or territory. As at the Latest Practicable Date, we have not identified any country or territory for expansion in the near future and we will continue to review and assess the potential overseas expansion on a regular basis.

We expect in the future to enter into strategic alliances with complementary companies by way of either joint ventures or acquisitions. As at the Latest Practicable Date, we have not identified any target for forming any strategic alliance.

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### PROPERTY INTERESTS

As at the Latest Practicable Date, we owned two parcels of land in China. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. We use our land for our production facilities and offices. As at the Latest Practicable Date, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of our total assets. As a result, this prospectus is exempted from compliance with the requirements of Chapter 5 of the Listing Rules and section 38(1) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, both of which require a valuation report with respect to all Group's interests in land or buildings.

#### ***Owned properties***

As at 30 June 2013, we owned land use rights for two parcels of land described below with an aggregate site area of 36,292 sq.m. and with an aggregate gross floor area of 13,484 sq.m.

- We own land use rights for a parcel of land located at Goldpac Building, Fuxi, Qianshan, Zhuhai, Guangdong Province, the PRC with a site area of 9,173.2 sq.m. We have obtained land use rights for this parcel of land for industrial use for a term expiring on 8 June 2043. We use this land as our office building with a gross floor area of approximately 3,024.2 sq.m. We have obtained the relevant building ownership certificates.
- We own land use rights for a parcel of land where we have located our second phase factory at No. 222 Jinfeng Road, Zhuhai, Guangdong Province, the PRC with a total site area of 27,119.1 sq.m. We have obtained land use rights for this parcel of land for industrial use for a term expiring on 26 October 2051. We use this land for manufacturing, warehouse, and office purposes. The second phase factory has a gross floor area of approximately 10,460.1 sq.m. We have obtained the relevant building ownership certificates for the second phase factory. We have also constructed our new third phase factory in this parcel of land. Subsequent to 30 June 2013, on 17 October 2013, we obtained the building ownership certificate of our third phase factory, which has a gross floor area of approximately 11,430.3 sq.m. Please refer to the section headed "Business — Facilities — Zhuhai Facility" in this prospectus.

As at the Latest Practicable Date, we have leased part of our office and storage spaces at our Zhuhai plant of a total of 876 sq.m. to Zhuhai post office, and the relevant tenancy agreement entered into between Goldpac Secur-Card and Zhuhai post office was not registered with the competent housing management authorities. Our PRC legal advisers, Commerce & Finance Law Offices advised that the fine that we may be exposed to ranges from RMB1,000 to RMB10,000 for each non-registration. As advised by our PRC legal advisers, as our tenancy agreement with Zhuhai Post Office in fact is unable to be registered with the competent local housing management authorities which do not accept lease registration for non-residential property. The lack of the registration does not affect the validity of the tenancy agreement, which is legally binding and enforceable, and will not have a material adverse effect on the financials and operations of Goldpac Secur-Card.

#### ***Leased properties***

As at 30 June 2013, we leased one industrial property with a gross floor area of 2,117 sq.m. in Shanghai for office and card personalisation purposes and ten properties with an aggregate gross floor area of approximately 1,376.92 sq.m. which are primarily used as offices and employee accommodations in Beijing, Guangzhou, Kunming, Shenyang, Xi'an, Nanjing and Hangzhou. In August 2013, we have further leased approximately 860 sq.m. in Shanghai for card personalisation purpose.

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As at the Latest Practicable Date, our lease agreements (except for that in Beijing, Guangzhou and Kunming) have not been registered with the relevant PRC authorities by the lessors despite our continued effort in requesting the relevant lessors to register the lease agreements. As advised by the PRC legal advisers of our Company, Commerce & Finance Law Offices, such non-registrations will not invalidate the lease agreements and the lease agreements remain valid and binding between the parties. As such, the non-registration of the lease agreements would not affect the possession and use of the leased properties by us according to the lease agreements and PRC laws and regulations.

For the facility in Shanghai that is used as a personalisation centre, our Directors believe that if necessary the Company may relocate the facility to another comparable location within a short period of time, without incurring material costs nor causing material interruption to its operation. The computer systems and equipments used in the personalisation centre are readily removable. As such, our Directors confirmed that the direct relocation costs would be immaterial. As at the Latest Practicable Date, our personalisation centre in Shanghai contributed less than 10% of the total actual production volume of our card personalisation services, and the Zhuhai main facility has sufficient capacity to pick up the production of personalisation services in the Shanghai facility if necessary. Accordingly, we do not expect any material loss in turnover should relocation is required.

Based on the above, our Directors are of the view that the non-registration of the lease agreements (including the Shanghai facility) is unlikely to have a material adverse effect on the financials and operations of our Group. As (i) the facility in Shanghai contributed to less than 10% of the total actual production volume of our card personalisation services during the Track Record Period, (ii) the production capacity of personalisation services at the Shanghai facility is sufficiently backed-up by the Zhuhai main facility, and (iii) in view that the commencement of operations of the new plant in our Zhuhai main facility in the fourth quarter of 2013 or the first quarter of 2014, which will expand the capacity of our card personalisation services at our main facility in Zhuhai, our Directors do not consider the personalisation centre in Shanghai is material to our business. As a remedial action, the relevant Group companies are currently negotiating with the relevant lessors to register the lease agreements. The Group companies will also include a clause in any future lease agreements on due registration of the leases in order to prevent future occurrence of such non-compliance incidents.

### ***Approvals and permits***

We have acquired the land use rights certificate and construction works planning permit\* (建設工程規劃許可證) to build our new production facility in Zhuhai in March 2012 and the construction commencement permit\* (施工許可證) in May 2012. We have also obtained the acceptance certificate for completion of the construction\* (竣工驗收備案表) in June 2013 and received the building ownership certificate for the new production facility in October 2013.

Our Directors consider some of our owned and leased properties to be material to our Group in terms of operation and contribution to our revenue. Details of these property interests are set out in the paragraph headed “Further Information About the Business of our Company – 9. Property” in Appendix IV to this prospectus. Our Directors confirm that during the Track Record Period, our Group has not committed any violation of laws and regulations in the PRC in relation to the use of, or giving rise to any environmental issues in respect of, these property interests, except that our Group had not registered the tenancy agreements entered into by our Group in respect of the leasing of these property interests in the PRC. Our Directors are of the view that such non-compliance is not critical to our operation. Save as aforesaid, we are not aware of any investigations, notice, pending litigation, breaches of law or title defects in respect of these property interests.

### **QUALITY CONTROL AND PRODUCT SECURITY**

We are committed to maintaining the quality and security of our products and perform a variety of quality control, inspection and testing procedures throughout our product development and

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production processes to monitor and attempt to identify defects and irregularities at throughout the stages of production development and production.

### **Quality control management**

We have established a quality management department and devote significant resources to it to manage the quality of our products. The quality management department is organised into five functional areas: environmental and health system management, card quality management, smart card quality management, personalisation services quality management, respectively. As at 30 June 2013, we had 80 staff in our quality management department, supervised by one quality control manager. Our quality management department is responsible for improving our quality, environment and health management system and ensuring that we are in compliance with all applicable laws, regulations and internal policies. It works with our customer service department to receive feedback from our customers and is responsible for handling any complaints with regard to the quality of our products. It also conducts testing and sampling checks regularly throughout our purchasing, manufacturing and delivery process. As a result of our execution of our strict quality control policies, we have not had a product recall nor have we had a material complaint relating to product quality during the Track Record Period and up to the Latest Practicable Date. Furthermore, our products have not been subject to any material complaint, dispute, claim, litigation or investigation by the PRC regulatory body throughout the Track Record Period and up to the Latest Practical Date.

For the design and development process of our financial cards, we apply quality control measures at each major stage of the process. Upon initial receipt of the proposed product specifications, our research and development team will conduct a feasibility analysis. Once specifications are determined to be feasible, we proceed with the development and testing stage. In this stage, the quality control team would perform certain testing and auditing procedures on project deliverables such as those relating to software quality assurance with regards to source code we create and use in smart cards. Once the product design is complete and we have produced prototypes and performed trial production, our quality control team performs a comprehensive review of the product to make sure it meets all required specifications and is production ready and also performs user acceptance testing. Once all required review and testing is completed satisfactorily, the product will then be ready for production.

In addition to these quality control procedures, customers generally inspect and monitor the production process through their on-site quality inspection. They will also conduct product quality inspection by way of sample checks. We closely communicate with our customers to ensure that customers' feedback and requirement are closely followed. For certain key production stages, we obtain customers' approval before moving to next stage. For certain key products or new products, we have trial production according to customers' requirements before commencing large scale production.

As a recognition of our Group's commitment to quality control, our principal operating subsidiary Goldpac Secur-card has obtained the certification of ISO 9001:2008 for our card manufacturing and personalisation services. ISO 9001:2008 is a quality management system certification widely accepted as an internationally recognised and standardised measure of implementation of an effective quality management system.

### **Product security and payment card organisation certification**

Furthermore, as required by our financial institution customers, we have obtained certifications from all six of the leading worldwide payment card organisations (Visa, Mastercard, American Express, UnionPay, JCB, and Diners Club) with respect to our card manufacturing and personalisation services. It takes card service providers a substantial amount of time and resources to apply for and obtain these certifications, which address the quality of services, production process and management capability and security management. These certifications are reviewed on either an

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annual basis or a bi-annual basis and we are reviewed by these payment card organisations in order to maintain our certifications. In particular, payment card organisations require that we meet minimum physical and logical security standards in order to continue our certification to manufacture and personalise cards for each respective payment card network. Physical security requirements, which are applicable to card manufacturers and personalisation providers, generally address the physical presence, movement, and accountability of card components and finished cards, including tangible features such as the security of the premises, personnel access to secure areas and CCTV surveillance. Logical security requirements, which are applicable to personalisation providers, address threats to the confidentiality of personalisation data during data transfer, access, storage, and destruction, as well as all aspects associated with cryptographic key management, including the protection of issuer keys used in the personalisation process.

Our facilities and internal control measures comply with these requirements and standards, as evidenced by our track record of successful security audits by the major payment card organisations and renewal of certificates in the past. Examples of measures that we have implemented to meet these requirements include the use of security guards, electronic access control systems for restricted areas of our facilities, CCTV surveillance, alarm systems, hardware firewalls and network security systems. We also apply strict security protocols to protect card components (such as holograms, signature panels and unfinished cards) cards and finished cards, which may contain intellectual property of the payment card organisations and our customers in the form of logos, copyrighted designs, etc. Such protocols include storing such items in areas with restricted access and regular inventory count procedures to make sure that such items are accounted for. We believe that the security measures we have implemented to meet the requirements of the payment card organisations allow us to effectively protect the private and confidential data and intellectual property rights of our customers and maintain the security of our products.

During the Track Record Period and up to the Latest Practicable Date, save as those regular annual or biannual reviews performed by the payment card organisations, our Company has not been subject to any extra investigation from such payment card organisations. With respect to the certifications granted by each of the payment card organisations, during the Track Record Period, we have complied with the standards and criteria for obtaining certifications from each of the payment card organisations and successfully renewed our certifications with each such organisation as a result of passing the annual or biannual reviews of the relevant payment card organisations. During the Track Record Period, we have not experienced in any findings in the annual or biannual reviews which have led to any failure to continue our certification to manufacture and personalise cards for the six leading worldwide payment card organisations (Visa, MasterCard, American Express, UnionPay, JCB and Diners Club). In addition to complying with the standards and criteria for obtaining certifications from each of the payment card organisations, we believe that our internal control measures comply with the relevant industry standards and government regulations applicable to the business of our Group. During the Track Record Period, we did not suffer any system failure or interruption, including attacks by hackers. Mr. Lu Xiaozhong, an executive Director and a senior vice president of our Company, is responsible for the management of the quality control, confidentiality and intellectual property protection and product security of our Group. For detailed qualification and experience of Mr. Lu Xiaozhong, please see “Directors and Senior Management — Directors”. Further, our PRC legal advisors, Commerce & Finance Law Offices, is of the opinion that up to the Latest Practicable Date, save as disclosed in the paragraph headed “Property Interests — owned properties”, “Property Interests — Leased properties” and “Employees” under this section our Group has complied with all material applicable PRC laws and regulations and obtained all material licenses, permits and certificates which are necessary for us to conduct our operations from the relevant governmental bodies in the PRC. Based on these annual audits, internal controls and advice from the PRC legal advisors, the Joint Sponsors are of the view that the internal control measures are adequate for the regulations related to the financial card industry in the PRC.

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Our costs to maintain our certifications from the payment card organisations for the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, were approximately RMB1.6 million, RMB1.8 million, RMB1.3 million and RMB0.9 million, respectively.

### RESEARCH, DESIGN AND DEVELOPMENT

Strong research and development capabilities are important to ensure our success and our ability to develop application solutions to meet the requirements of financial institutions, government departments or agencies, and business enterprises. Such capabilities also enable us to continue to upgrade our existing application solutions in response to the changes in technological developments. Consequently, we continue to increase our resources devoted to research and development. Our research and development costs for each of the years ended 31 December 2010, 2011 and 2012, were RMB20.6 million, RMB23.6 million and RMB28.5 million, respectively, representing a CAGR of 17.6%, and for the six months ended 30 June 2012 and 2013 were RMB11.3 million and RMB19.5 million, respectively. Our research and development costs mainly include salaries and benefits of the technical staff, research and development materials, travelling expenses and office expenses. Our research and development expenses are monitored and controlled by two members of our senior management: Mr. Li Jun, our chief technology officer, and Mr. Hou Ping, our chief executive officer and executive Director. For each project, our research and development team will first generate a comprehensive research proposal for our chief technology officer's review. Once the proposal is approved by our chief technology officer, it will then be subject to our chief executive officer's final review and approval.

In addition to research and development of our application solutions, our research and development team also works closely with our sales and marketing staff. Feedback from sales and marketing staff help guide the development of our application solutions to meet the requirements of different customers. To maintain the quality and market awareness of the research and development team, we provide on-going technical training and seminars for our research and development staff. Some members also attend and participate in exhibitions and external seminars to keep abreast of the latest technological developments and maintain regular contact and discussion with financial institutions, PRC government department or agencies and business enterprises to ensure awareness of market needs.

During the Track Record Period, we conducted numerous research and development projects. Some examples of major projects include our development of:

- Next generation multi-function smart cards that incorporate EMV, PBOC 2.0 and social insurance card standards;
- A payment product offering extra security and authentication for smart card transactions on multiple platforms including internet banking, mobile banking and telephone banking;
- A cloud computing platform for data processing and data sharing; and
- Updated card operating systems and related software application for PBOC 2.0 compliant smart card products.

As disclosed in the paragraph headed “— Our Business Strategies — Expand our research and development efforts on new payment technologies” and the section headed “Future Plans and Use of Proceeds”, in order to provide the most advanced and innovative products and solutions to our customers and support our future growth, we expect to focus much of our research and development efforts on developing new products and services. We expect to spend approximately RMB262.8 million (equivalent to approximately HK\$332.7 million) of the net proceeds from the Global Offering on research and development projects and initiatives in the following areas (assuming (i) an offer price of

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HK\$5.10 per Offer Share, which is the mid-point of the indicative Offer Price range, (ii) that the Over-Allotment Option is not exercised and (iii) the net proceeds are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.79):

- *Smart card application platform to enhance the functionality of our smart cards.* This project involves our development of a software platform using Java Card technology that can be embedded into IC chips to allow smart card applications, or applets, written in the Java programming language to run on our smart cards as well as related improvements and upgrades. As part of this project, we are also developing applets to run on this platform, such as an applet providing for certain payment features compatible with PBOC standards. We expect to spend approximately RMB97.6 million from 2014 to 2016 for the development of this project, which mainly includes labour and office rental costs. We expect an initial launch of tested applications from this project in the fourth quarter of 2015.
- *New payment platforms and applications.* This project involves developing new platforms and applications to facilitate new types of fast, convenient and secure electronic payments, including platforms and applications that may utilise or be compatible with NFC technology. Examples of possible uses of such new payment platforms and applications include technology to facilitate instant electronic consumer-to-consumer (C2C) payments between individuals using cards, mobile phones or other electronic payment devices. We expect to spend approximately RMB44.3 million from 2014 to 2016 for the development of this project, which includes mainly labour and office rental costs. We expect an initial launch of tested applications in the fourth quarter of 2015.
- *Data task system for personalisation services.* This project involves our development of a data task system to increase automation of our personalisation services. The data task system is expected to enhance our provision of personalisation services to our customers by managing and programming each sector of our personalisation centre to increase efficiency. Examples of tasks that the data task system would manage include processes relating to data transfer, card issuance procedures, account statements, multi-task management, mailing, etc. We expect to spend approximately RMB21.8 million from 2014 to 2016 for the development of this project, which mainly includes labour and office rental costs. We expect an initial launch of tested applications in the second quarter of 2015.
- *Establish integrated research and development centre and facilities.* This project involves the establishment of an integrated research and development centre and facilities to house our expanding research and development team and our upgraded equipment and facilities. We expect to spend approximately RMB15.0 million for the development of this project. We expect to commence operations at the integrated research and development centre and facilities in the fourth quarter of 2015.
- *Develop enhanced security features.* This project involves enhancing the internal security of our operations on an ongoing basis such as through the development and implementation of secure research and development and quality control processes for our Group that meet certain third-party standards. We expect to spend approximately RMB6.8 million from 2014 to 2016 for the development of this project, which includes labour consulting and third-party certification costs. The expected initial launch is in the fourth quarter of 2015.
- *Acquiring equipment and facilities for our research and development projects and initiatives.* We expect to acquire equipment and facilities to support our various research and development projects and initiatives. Examples of such equipment and facilities include test instruments and software, programming software, application servers, hardware and security modules. We currently budget approximately RMB77.3 million for the acquisition of such equipment and facilities from 2014 to 2016. Our actual expenses for acquisition of such equipment and facilities will be based on the specific needs of our research and



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development projects from time to time. The equipment and facilities that we expect to acquire generally need to be of high quality and precision. We estimate that the prices of each major item of equipment and facilities we expect to acquire for the following projects shall fall within the following ranges: (i) smart card application platform, from approximately RMB80 thousand to RMB150 thousand; (ii) new payment platform and applications, from approximately RMB80 thousand to RMB5 million; and (iii) data task system for personalisation services, from approximately RMB300 thousand to RMB4 million.

The table below sets forth the amount of expenditures we expect to make for the above research and development projects and initiatives in each year from 2014 to 2016:

	2014	2015	2016	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Smart card application platform .....	35,202	43,024	19,400	<b>97,626</b>
New payment platforms and applications .....	16,258	20,325	7,724	<b>44,307</b>
Data task system for personalisation services .....	10,021	6,681	5,076	<b>21,778</b>
Establish integrated research and development centre and facilities .....	10,514	4,506	—	<b>15,020</b>
Develop enhanced security features .....	2,703	2,027	2,027	<b>6,757</b>
Acquire equipment and facilities .....	29,189	29,189	18,972	<b>77,350</b>
<b>Total</b> .....	<b>103,887</b>	<b>105,752</b>	<b>53,199</b>	<b>262,838</b>

We have a strong ability to design, develop and engineer a broad range of total solutions. At our headquarters in Zhuhai, we have a dedicated research and development centre. We also have a research and development centre in Beijing. As at 30 June 2013, we have 262 staff members engaged in research, development and design. Nearly all of them have received tertiary education and have on average 6 years of research and development related working experience. We intend to continue recruiting additional staff to join our research and development team. Our research and development staff specialise in various areas, such as smart cards, on-site card issuance system solutions, information and network security, data processing, data management, etc. They perform a variety of activities including card design, designing personalisation solutions and developing and testing card operating system software and card personalisation data processing software. Furthermore, we also have cooperation with universities like Wuhan University (武漢大學) and Beijing Institute of Technology Zhuhai College\* (北京理工大學珠海學院). We have research agreements with Wuhan University since 2010 in which we cooperate with and provide financial support for faculty and student researchers in their development of new technologies relating to our business. Such technologies include various software applications and applets for use with our smart card products. These research relationships provide us with a source of new technology as well as a source for recruitment of new research and development staff, as we regularly hire graduates that have participated in these research programmes. We also maintain a cooperation relationship with Beijing Institute of Technology Zhuhai College wherein we regularly recruit their students for internships. This relationship is currently not subject to a formal agreement.

The major terms of our cooperation agreement with Wuhan University provide that (i) Wuhan University will establish a research laboratory for us, (ii) we will provide a operation and maintenance fee of RMB500,000 each year for our research laboratory starting from the effective date of the agreement, (iii) Wuhan University will provide us with research results for commercial use and assist us in applying the fund projects; and (iv) the ownership of research results would be subject to the specific contracts by project basis, but in general, we would own the intellectual property rights. The agreement would be valid for a period of three years and renewable upon mutual agreement. The agreement was entered into on May 2013. As at 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we have paid nil, approximately RMB1.0 million, RMB0.3 million and RMB0.9 million to Wuhan University in relation to our cooperation relationship and research projects.

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We believe that our future success depends on our ability to develop and expand our offerings of products and services within our current core products and services, and to develop new products and services. Our ability to do so is dependent on our ability to identify technological and market trends, as well as the innovation, skill and experience of our research and development personnel. We believe that our ongoing research and development measures, as well as the cooperation between our research and development team and our sales and marketing staff, as described above, enable us to keep up with changes in the market, prevent our products from being substituted in a short period of time and remain competitive.

### SALES AND MARKETING

Currently, our products are being marketed and sold both in and out of China. As at 30 June 2013, our marketing and sales team comprised 63 personnel. Our sales team is supervised by Mr. R.Y. Lu, our executive Director and senior vice president, and divided into three sub-departments, namely, the sales department, marketing department, and banking equipment business department. The sales department is mainly responsible for managing our sales activities and is jointly responsible for controlling the customer credit risks with the credit management team. The marketing department is mainly responsible for carrying out our overall marketing strategies and managing our products. The banking equipment business department is mainly responsible for managing our sales activities for our on-site card issuance system solutions. All personnel of our marketing and sales team are knowledgeable about our products and services and have extensive sales experience. We also closely communicate with our marketing and sales personnel to keep abreast of the latest market trend and developments within the industry. We mainly focus our marketing efforts on our bank customers as well as other financial institutions as we believe these are the major markets. To broaden our brand recognition and awareness, we also advertise our brand and products in industry journals and technical publications. For details of our sales activities, see “— Business Process — Pre-sale Consultation”.

### CUSTOMERS

Within the PRC, we service many of the leading national and regional state-owned and joint-stock commercial banks, as well as foreign banks. Our customer base has wide geographic coverage across the PRC. Within Greater China, we also serve a number of banks in Hong Kong and Macao, as well as banks outside of Greater China including banks in Vietnam, Mongolia and the Philippines. In terms of public sector customers, in the PRC we provide social insurance cards for a number of municipal jurisdictions, as well as cards for public transportation and toll facilities for transportation agencies in a number of cities and regions.

The following table sets forth the turnover attributable to our different types of customers and the respective percentage of total turnover for the periods indicated:

	Year ended 31 December						Six months ended 30 June	
	2010		2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales to								
Banks and other								
financial institutions ..	271,758	76.1	329,205	74.1	519,872	76.8	473,565	87.6
Government agencies ..	63,199	17.7	85,352	19.2	121,062	17.9	50,998	9.5
Others <sup>(1)</sup> .....	22,199	6.2	29,698	6.7	35,675	5.3	15,810	2.9
<b>Total</b> .....	<b>357,156</b>	<b>100.0</b>	<b>444,255</b>	<b>100.0</b>	<b>676,609</b>	<b>100.0</b>	<b>540,373</b>	<b>100.0</b>

Note:

(1) Others include various companies including retail businesses (such as department stores), public transportation operators, etc.

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We have maintained business relationship with our five largest customers during the Track Record Period for a period ranging between approximately ten to 15 years.

For each of the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, our five largest customers in aggregate accounted for approximately 36.6%, 35.2%, 46.6% and 62.1%, respectively of our total turnover. Sales to our largest customer for each of the same periods amounted to approximately 13.1%, 15.5%, 20.7% and 42.3% of our total turnover respectively. Our five largest customers during the Track Record Period included certain Bank of China entities in the PRC (including BOC Services Co. Ltd) (the “**BOC PRC Entities**”) and BOC Credit Card (International) Limited, all of whom share a common ultimate holding company, BOC. BOC is also the ultimate holding company of BOCI Investment, a shareholder and connected person of our Company. Mr. Ting Tao I, one of our non-executive Directors and the head of the private equity division of BOC International Holdings Limited, the immediate holding entity of BOCI Investment, is a board representative nominated by BOCI Investment to the Board. For the three years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, our amount of sales to BOC Credit Card (International) Ltd and to the BOC PRC Entities were approximately RMB30 million, RMB42 million, RMB108 million and RMB78 million, respectively. Please see “Connected Transactions — Connected Persons” and “Connected Transactions — Continuing Connected Transaction — BOC Service Agreements”.

As explained above, other than Mr. Ting Tao I and BOCI Investment, none of the Directors or any of their respective associates, or any shareholders, who owned more than 5% of our issued share capital as at the Latest Practicable Date, has any interest in any of our five largest customers in any of the financial years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013.

During the Track Record Period, two of our customers, namely Gemalto Taiwan Co., Ltd and Gemalto Pte. Ltd, are controlled by Gemalto and therefore are our connected persons. For each of the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, the amounts of sales for Gemalto Taiwan Co., Ltd were approximately RMB0.9 million, RMB0.1 million, RMB0.1 million and nil, respectively, and the amounts of sales for Gemalto Pte. Ltd were approximately RMB0.5 million, RMB0.8 million, RMB0.1 million and nil, respectively. Please see “Connected Transactions — Connected Persons” and “Connected Transactions — Continuing Connected Transactions — Supply of Cards and Solutions to Gemalto”.

### PRICING POLICY

Most of our contracts in each of our business segments are awarded on a competitive tender basis, which in general results in pressure on our pricing. Pricing for our major total solutions is done on a project-by-project basis and depends on the pricing for solutions of a similar nature in order to increase our competitiveness on pricing. We also consider a number of factors such as the latest information regarding overall customer demand, competition research and other market conditions. We determine our pricing primarily on the basis of these factors, with appropriate consideration given to the size of transaction, our experience working with the customer and the significance of the business opportunity to our growth. We apply a similar pricing methodology for our non-tender contracts.

During the Track Record Period, we generally do not include price adjustment clauses in our sales contracts to customers that would allow us to pass increases in the cost of production materials to our customers.

### CREDIT POLICY

Payment terms with our customers are mainly on credit. Invoices are normally payable by customers within 30 to 150 days from date of issuance, which is generally consistent across each of

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our reporting segments. Retentions held by customers are normally payable between 6 months to 1 year by the customers from the date of issuance of invoice. Such retentions include retentions on the average of 5% of the total price for smart cards required by our customers to insure performance of IC chips during the warranty period. Our card issuance system solutions also have retentions ranging from 5% to 10%, which are payable after the expiration of the warranty period. Our personalisation services are generally not subject to retentions. Many of our customers are PRC banks and PRC government agencies. Based on our experience dealing with these customers, their repayment time is generally long due to, among other things, various internal approval or authorisation procedures for arranging payment. See “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade and Bills Receivables”.

### WARRANTIES AND PRODUCT RETURNS

We provide warranties on our products and services to our customers. With respect to cards we produce, our agreements typically stipulate that we shall replace all defective cards for a period of two to three years following the customer’s inspection and acceptance of such cards. Likewise, with respect to cards that we personalise, we also typically replace all cards with personalisation defects for a period of two to three years following the customer’s inspection and acceptance of such cards. In addition, our personalisation services agreements typically provide that if the percentage of defective cards in a particular order of cards that we personalise exceeds a specified rate, generally ranging from 0.01% to 1% per month, we may be subject to an additional monetary penalty, generally ranging from the material cost of the defective card to RMB100 per defective card. During the Track Record Period, our Directors have confirmed that the defective cards have not exceeded the defective rate as set out in the relevant contract and no monetary penalty has been claimed by any of our customers.

With respect to our on-site card issuance systems, we typically agree to provide repair services and replace defective parts and systems during a service warranty period that is typically three years. International Supplier also provides a warranty to us with respect to the on-site card issuance products that it supplies to us and is responsible for providing to us, free of charge, replacements of any defective parts or systems of such products. During the Track Record Period, we did not receive any material product returns or make any large-scale product recalls due to any quality defects, which would have a material adverse impact on our business and results of operations. On this basis, no provision was considered necessary to be made in connection with the warranties we provided during the Track Record Period.

### INVENTORY CONTROL

We actively monitor our inventories including raw materials and components, work-in-progress and finished products to ensure cost efficiency, quality control and timely delivery of products. We strive to maintain optimal inventory levels to meet customer demand while managing our working capital requirements to finance our inventories. We set inventory targets every six to eight weeks based on rolling six to 12-month estimates of our expected orders, to guide our procurement plan for our products, solutions and services and we closely monitor the inventory levels. Our inventories largely comprise raw materials, such as PVC and PET, components, such as holograms and IC chips, and equipment stocked for installation in our on-site card issuance system solutions. For each of the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, the closing balance of our inventories amounted to approximately RMB69.6 million, RMB92.3 million, RMB145.6 million and RMB168.4 million, respectively, which represented approximately 18.4%, 21.0%, 23.7% and 19.4% of our total current assets respectively.

We procure components on a project-by-project basis, except for some generic items, such as paper, inks and PVC and PET card bases, which are used in most of our projects. Our inventory

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consists of a low level of components and equipment. For each of the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 2013, we made provisions for obsolete inventories amounting to approximately RMB3.9 million, RMB0.9 million, RMB1.1 million, nil and RMB3.5 million, respectively.

### SUPPLIERS

We procure our raw materials from third-party suppliers that are mostly based in the PRC, Singapore and Hong Kong. A material portion of our raw materials include IC chips, for use in the production of smart cards, and PVC, for use in the production of magnetic strip cards and smart cards. We also purchase the components and equipment necessary for our solutions in PRC, Europe and the USA. We source these components and equipment within the PRC except for certain types of IC chips and on-site card issuance machinery which are sourced overseas. To the best knowledge, information and belief of our Directors, the raw materials we source from Gemalto are mainly from the PRC and Singapore. The following table sets forth a geographical breakdown of our material costs incurred based on the locations of our suppliers for the periods indicated:

	Year ended 31 December						six months ended 30 June	
	2010		2011		2012		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
PRC .....	103,992	65.2	133,642	60.0	243,328	61.6	304,506	85.7
United States of America ...	34,691	21.7	63,110	28.4	92,242	23.4	35,561	10.0
Europe .....	3,950	2.5	4,645	2.1	4,739	1.2	2,037	0.6
Other countries and regions .....	16,868	10.6	21,163	9.5	54,668	13.8	13,272	3.7
<b>Total</b> .....	<b>159,501</b>	<b>100.0</b>	<b>222,560</b>	<b>100.0</b>	<b>394,977</b>	<b>100.0</b>	<b>355,376</b>	<b>100.0</b>

In general, we source raw materials from the most appropriate supplier based on the product specification requested by our customers. However, for holograms and signature panels of payment card organisations, our Directors have confirmed that the respective payment card organisations will have their respective designated supplier where we must purchase the holograms and signature panels from since these are part of the security features of their respective cards. There is no alternative supplier that we may purchase from for these holograms and signature panels. To the best knowledge, information and belief of our Directors, these suppliers include manufacturers for the payment card organisations who have manufactured these holograms and signature panels, and the payment card organisations themselves. The cost of our purchases of holograms and signature panels from designated suppliers does not materially affect our results of operations. Neither the designated suppliers nor the payment card organisations that designate these suppliers are customers of our Group and therefore our purchases of holograms and signature panels from these designated suppliers do not constitute subcontracting arrangements. Please see “Financial Information — Principal Income Statement Components — Costs of Goods Sold” for the breakdown of holograms and other materials (including signature panels) as part of costs of goods sold during the Track Record Period.

Most of the components and equipment we have purchased are paid in Renminbi and US dollars and generally have a credit term of 60 to 180 days. Our suppliers usually accept payments in bank's acceptance bill or bank transfer. We have established good and long-term relationships with our major suppliers, most of which have been our suppliers for over seven years. For each of the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, purchases from our top five suppliers together accounted for approximately 54.6%, 53.4%, 73.4% and 96.4% of our total purchase, respectively, while the largest supplier accounted for approximately 16.7%, 20.1%, 26.9% and 59.3% respectively.

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As at the Latest Practicable Date, none of our Directors, or their respective associates, or any shareholders of our Company who, to the knowledge of our Directors, owned 5% or more of our issued share capital, had any interest in any of our five largest suppliers during the Track Record Period, other than Mr. Christophe Pagezy, our non-executive Director and the executive vice-president of Gemalto N.V., and Gemalto, which is a connected person of our Group. Details of its relationship are set out under the section headed “Connected Transactions — Connected Persons — Gemalto”. For the three years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, our amount of procurement from Gemalto or its designated subsidiaries in the amount of RMB8.3 million, RMB15.8 million, RMB131.5 million and RMB212.1 million, respectively.

### AWARDS AND ACCREDITATIONS

Since our establishment, we have received certain awards and accreditations including the following that are listed below:

Year of Grant	Award / Accreditation	Awarding Organisations	Description of the Award
2012	The Key Outsourcing Service Enterprise in 2012* (2012年商務部重點聯繫服務外包企業)	MOFCOM	Recognition for important outsourcing service enterprises
2012	Golden Card Award* (金卡片獎)	China Smart Card Society	Award for best application and best supplier for bank smart card and financial smart card
2012	High and New Technology Product of Guangdong Province of year 2011* (2011年廣東省高新技術產品)	Guangdong Science and Technology Department* (廣東省科學技術廳)	Awards for safety authentication and multi-function safety payment and trading card products
2011	National Demonstration Company for the Development of Linkage between Manufacture and Logistics* (全國製造業與物流業聯動發展示範企業)	NDRC	Award for improving the cooperation between manufacturing and logistics industries
2011	Independent Innovation Product of Guangdong Province* (廣東省自主創新產品)	<i>Jointly granted by:</i> Guangdong Science and Technology Department* (廣東省科學技術廳), Guangdong Development and Reform Committee* (廣東省發展和改革委員會), Guangdong Economy and Information Committee* (廣東省經濟和信息化委員會), Guangdong Finance Department* (廣東省財政廳), Guangdong Intellectual Property Bureau* (廣東省知識產權局), Guangdong Quality and Technology Supervision Bureau* (廣東省質量技術監督局)	Award for contactless smart card operation systems and laser cards

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Year of Grant	Award / Accreditation	Awarding Organisations	Description of the Award
2011	Provincial Level Enterprise Technology Centre of Guangdong* (廣東省省級企業技術中心)	<i>Jointly granted by:</i> Guangdong Economy and Information Committee* (廣東省經濟和信息化委員會), Guangdong Finance Department* (廣東省財政廳), Guangdong National Tax Bureau* (廣東省國家稅務局), Guangdong Local Tax Bureau* (廣東省地方稅務局), National Custom Guangdong Branch* (海關總署廣東分署)	Award for being a leading technology centre among the Guangdong enterprises
2011	Winner, Unique Innovation — Elan Awards for Card Manufacturing Excellence	International Card Manufacturers Association	Award for innovative technical achievement in card functionality
2006	Certificate of Key New Product of Guangdong Province* (廣東省重點新產品證書)	Guangdong Science and Technology Department* (廣東省科學技術廳)	Award for the new financial payment products
2005	National Key New Product* (國家重點新產品)	<i>Jointly granted by:</i> Ministry of Science and Technology* (國家科學技術部), MOFCOM, General Administration of Quality Supervision, Inspection and Quarantine* (國家質量監督檢驗檢疫總局), Ministry of Environmental Protection* (國家環境保護部)	Award for electronic trading security system
2004	Top 10 Smart Card Vendors in China	Cards Tech & Security Magazine	Award for outstanding smart card vendors in China

### INFORMATION SYSTEM

We believe that our information technology systems are important to our daily business operations. We have successfully implemented ERP systems to support our manufacturing processes and accounting functions. We have also implemented a software configuration management system that helps us manage complex software development projects involving the collaboration of numerous developers by organising and tracking the versions and amendments of various files used to build our software products. We are constantly upgrading our information systems to enhance our operations.

### COMPETITION

We consider the financial card and card services industry in which we operate to be highly competitive. Although the industry has high entry barriers, such as technology, security requirements, qualification and certification requirements, production capacity, production experience and stable customer relationships, the competition among existing market players is intense in terms of product quality, pricing, performance, reliability, timeliness of delivery, product development capabilities, customer service and overall management.

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According to the Frost & Sullivan Report, in Greater China, competition in our industry is concentrated. In the year ended 31 December 2012, the top five financial card suppliers accounted for 68.4% of the market segment in terms of sales value and 79.9% of the market segment in terms of sales volume, while the top five personalisation services providers accounted for 63.7% of the market segment in terms of sales value and 82.3% of the market segment in terms of sales volume. Furthermore, during this same period, the top two providers of on-site card issuance system solutions accounted for 56.1% of the market segment in terms of sales value, with no other provider accounting for more than 10% of the market segment. In the year ended 31 December 2012, we were the largest financial card supplier in terms of sales value and the third largest in terms of sales volume, the largest personalisation services provider in terms of both sales value and sales volume and the second largest provider of on-site card issuance system solutions in terms of sales value in Greater China. Our key competitors consist of domestic PRC manufacturers as well as multi-national corporations selling in the PRC and other markets in which we supply our products and services.

### INTELLECTUAL PROPERTY

As at 30 June 2013, we had 14 utility model patents and 17 software copyrights relating to our business operations, all of which are registered in the PRC. Furthermore, pursuant to a trademark license agreement entered among GIHL, Goldpac Secur-card and Goldpac Guangzhou on 29 March 2011, our Group has obtained a royalty-free and non-exclusive licence from GIHL with respect to four trademarks owned by GIHL for use within the PRC. Such trademark license agreement has not been registered under the Trademark Office of the State Administration for Industry & Commerce of the PRC (中國國家工商行政管理總局商標局). As advised by our PRC legal advisers, Commerce & Finance Law Offices, the non-registration of the trademark license agreement would not affect our ability to enforce our rights against the licensor to use the licensed trademarks in accordance with the trademark license agreement and PRC laws and regulations, however we would not be able to enforce or defend our rights under the license agreement against any third party that may also have a bona fide licence for the same trademark. We are also the registered owner of one domain name. As at the Latest Practicable Date, we are in the process of applying for four invention patents.

To protect the intellectual property of our products, we have entered into confidentiality agreements with our employees pursuant that require them to keep confidential all information relating to our operations and technologies. We have also included confidentiality clauses in the following agreements: (i) certain of our collaboration agreements with universities and research institutions; (ii) certain of our sales agreements with our customers; and (iii) supply agreements with our suppliers. Furthermore, through our management systems, we are able to closely track the development of the intellectual property that we create. One example is our implementation of a software configuration management system that helps us manage complex software development projects involving the collaboration of numerous developers by organising and tracking the versions and amendments of various files used to build our software products. In addition, we have also registered 11 software products in PRC. The details of the such intellectual properties are set out in the paragraph headed “Further Information About the Business of our Company – 10. Intellectual property rights of our Group” in Appendix IV to this prospectus.

We have comprehensive measures to manage confidential information and intellectual property rights of our customers. For example, we keep certain of our operational systems for card personalisation disconnected from the Internet to prevent remote, unauthorised access. Also, our personalisation services customers transfer encrypted cardholder data to us via dedicated data lines to our secure data processing centre, which only certain of our authorised staff can access. The cardholder data is decrypted in the data processing centre on systems that are protected by hardware firewalls and then processed and loaded into our personalisation equipment in preparation for loading onto the cards. Our secure data processing centre is further protected by an intrusion detection system to provide continuous physical security. We also make sure that personal information provided by customers is only used for card production purposes and that such information is promptly deleted after completion of card production. Furthermore, we apply strict



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security protocols to protect card components and finished cards, which may contain intellectual property of the payment card organisations and our customers in the form of logos, copyrighted designs, etc. See “— Quality Control and Product Security — Product security and payment card organisation certification” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims which had material impact on our Group.

### EMPLOYEES

As at 31 December 2010, 2011 and 2012 and 30 June 2013, we employed 1,083, 1,220, 1,328 and 1,446 full-time employees, respectively. The following table sets forth the total number of employees by function as at 30 June 2013.

<u>Function</u>	<u>Number of Employees</u>	<u>% of Total</u>
Senior Management .....	5	0.3
Finance and corporate administration .....	66	4.6
Manufacturing .....	963	66.6
Sales and marketing .....	63	4.4
Procurement .....	7	0.5
Research and development and design .....	262	18.1
Quality control .....	80	5.5
<b>Total</b> .....	<b><u>1,446</u></b>	<b><u>100.0</u></b>

We enter into separate labour contracts with our employees in accordance with the PRC labour law. As confirmed by the relevant PRC local labour authorities, we have not been subject to any penalties in relation to any violation of PRC labour laws and regulations.

We believe our success depends heavily upon our employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, we place a strong emphasis on training our employees. We provide training periodically and across operational functions, including introductory training for new employees, technical training, professional and management training, team-building and communications training.

Our employees' remuneration generally includes salary and performance-based bonuses except for our sales personnel who are compensated by salary and discretionary performance bonuses. We make contributions for our employees in relation to the mandatory social security funds including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC. We also provide full coverage of housing provident fund contributions to our employees as required by local regulations.

As at the Latest Practicable Date, as Goldpac Guangzhou has no employee, it has not registered for the mandatory social security funds and the housing provident fund as required under the laws and regulations in the PRC. As advised by our PRC legal advisers, Commerce & Finance Law Offices, that the penalty that we may be exposed to ranges between 100% to 300% of the social contribution dues for the lack of registration of the mandatory social security funds, and between RMB10,000 and RMB50,000 for the lack of registration of the housing provident fund. As advised by our PRC legal advisers, Commerce & Finance Law Offices, in practice, the relevant PRC government authorities do not require an entity with no employee to register for mandatory security funds and the housing provident fund, and as Goldpac Guangzhou has no employee and has not received any notice from the relevant PRC government authorities, as at the Latest Practicable Date, these lack of registration will not have a material adverse effect on the financials and operations of Goldpac Guangzhou. Goldpac Guangzhou confirms it will duly register the mandatory social security funds and the housing provident fund once it engages any employees.

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Our employees (excluding temporary and part-time employees) are members of a trade union affiliated with the All China Federation of Trade Unions. As at the Latest Practicable Date, we don't engage any employment agents, and we had not experienced any significant problems with our employees or disruption to our operation due to labour disputes, nor had we experienced any difficulties in the recruitment and retention of experienced staff.

### INSURANCE

We maintain insurance for vehicles and property including office, manufacturing facilities and, equipment and inventories in the PRC. In addition, we also maintain the following types of insurance to minimise our risks: (i) cash insurance to cover the cash kept in the safe or during the transportation; (ii) plastic card manufacturer/personalisers liability insurance to cover claims in respect of personal injury or property damage resulting from the unauthorised use of cards that we manufacture or our unauthorised use of cardholder's information; and (iii) carriage insurance to cover losses incurred during transportation of goods by air, sea, waterway and roads.

Consistent with what we believe to be customary practice in the PRC, we do not carry any business interruption insurance, key-man insurance, or insurance covering potential environmental damage claims. Such insurance is not mandatory under the laws and regulations of the PRC. Our Directors believe that our Group's insurance policies are adequate and consistent with the common industry practice in the PRC.

During the Track Record Period, we had not been subject to any insurance claims which were material to us.

### OCCUPATIONAL HEALTH AND SAFETY

We are subject to various production safety rules and regulations in the PRC. For further details, please refer to the section headed "Regulations" in this prospectus. We have implemented various labour safety measures for the provision of our personalisation services and the production process. In addition to regular physical examinations scheduled for our employees, we have also established procedure to ensure the work-place safety of our employees. We implement safety guidelines and operating procedures for our production process and conduct regular and thorough worksite inspection to eliminate potential hazardous work environment. In addition, we also, from time to time, provide our employees with occupational safety education and training to enhance their awareness of safety issues. Our labour safety measures have been recognised by professional community as evidenced by the GB/T 28001 Occupational Health and Safety Management System Certification (GB/T 28001 職業健康安全管理體系認證證書) we received in August 2012. We have not experienced any material work-place accident during the Track Record Period, and our PRC legal advisers, Commerce & Finance Law Offices, have confirmed that we are in compliance in all material respects with applicable laws relating to labour safety matter in the PRC.

### ENVIRONMENTAL MATTERS

Our operation is subject to the current environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed "Regulations — Regulatory Framework of the Smart Card Industry — Environment Protection" in this prospectus. The environment and safety related laws and regulations applicable to our operations in the PRC include the *Environmental Protection Law of the PRC\** (《中華人民共和國環境保護法》), the *Law on the Prevention and Control of Water Pollution\** (《中華人民共和國水污染防治法》), the *Implementation Rules of the Law on the Prevention and Control of Water Pollution\** (《中華人民共和國水污染防治法實施細則》), the *Law on the Prevention and Control of Air Pollution\** (《中華人民共和國大氣污染防治法》), the *Law on the Prevention and Control of Solid Waste Pollution\** (《中華人民共和國固體廢物污染環境防治法》), and the *Law on the Prevention and Control of Noise Pollution\** (《中華人民共和國環境噪音污染防治法》) and *The Law of the PRC on Appraising Environment*

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*Impacts\** (《中華人民共和國環境影響評價法》), and *The Regulations on the Administration of Environmental protection of Construction Projects\** (《建設項目環境保護管理條例》).

During the Track Record Period and as at the Latest Practicable Date, we have not received any notice or warning in relation to pollution in respect of our production and facilities. Non-compliance with any environmental laws, rules and regulations may, depending on the seriousness of the violation, result in an order for rectification from the authorities, penalties or an order for cessation of production. There is no assurance that the PRC national or local authorities will not impose additional environmental protection requirements which might disrupt our manufacturing process or require us to incur additional expenditure in complying with such additional requirements. During the Track Record Period, we have not been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof. Our annual cost for compliance with applicable environmental rules and regulations for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 was RMB64,000, RMB89,000, RMB88,000 and RMB46,000, respectively. We expect annual cost for compliance with applicable environmental rules and regulations for the year ending 31 December 2013 will be approximately RMB52,000.

### LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Enterprises engaged in the providing secure payment solutions and services in the PRC are required to obtain requisite certificates, approvals and licenses from the relevant government agencies. The applicable laws and regulations in relation to our business include *the People's Republic of China on Administration of Production Licensing of Industrial Products\** (《中華人民共和國工業產品生產許可證管理條例》), *Detailed Rules for Implementation of Production License of IC Card and IC Card Reader\** (《集成電路卡及集成電路卡讀寫機產品生產許可證實施細則》), *Regulations on Administration of Printing Industry\** (《印刷業管理條例》), *the Regulations on Integrated Circuit Card Registration\** (《集成電路卡註冊管理辦法》), and so on. See “Regulations – Regulatory Framework of the Smart Card Industry” in this prospectus.

Our PRC legal advisors, Commerce & Finance Law Offices, is of the opinion that up to the Latest Practicable Date, save as disclosed in the paragraph headed “Property Interests – Owned properties”, “Property Interests – Leased properties” and “Employees” under this section our Group has complied with all material applicable PRC laws and regulations and obtained all material licenses, permits and certificates which are necessary for us to conduct our operations from the relevant governmental bodies in the PRC. As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

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### NON-COMPLIANCE WITH COMPANIES ORDINANCE

We have inadvertently breached certain sections of the Companies Ordinance. The table below summarises the non-compliance with the requirements of the Companies Ordinance by our Group as at the Latest Practicable Date.

Item(s) of non-compliance	Name(s) of our Group company(ies)	Particulars of the non-compliance	Cause for the non-compliance	Remedial actions	Potential maximum penalty/fine	Statutory provisions made for any potential penalty/fine	Seriousness of Non-compliance incident
Non Compliance with section 158(4) of the Companies Ordinance (Late filing of change in directors or their particulars)	Goldpac Datacard	Late filing of appointment or resignation of directors or change of address and passport number throughout the period from 2000 to 2008	The lack of internal company secretarial department and the directors were ignorant of the detailed requirements of the relevant law and had misplaced reliance on professional company secretarial services providers	Subsequent filings were made throughout the period from 2000 to 2010 A letter has been sent to the Hong Kong Companies Registry to ascertain whether penalties or other actions will be imposed	The company and every officer (including director, manager or secretary) of the company who is in default is liable to a maximum penalty of HK\$10,000 together with a daily default fine of HK\$300	Section 158(4) of the Companies Ordinance	No material impact on the operations or financial positions of the company
	Company	Late filing of appointment or resignation of directors throughout the period from 2004 to 2010	Same as above	Subsequent filings were made throughout the period from 2005 to 2010 A letter has been sent to the Hong Kong Companies Registry to ascertain whether penalties or other actions will be imposed	Same as above	Same as above	Same as above
Non-compliance with section 111 of the Companies Ordinance	Goldpac Datacard	First annual general meeting took place on in May 2002, which was more than 18 months after the incorporation of the company in May 2000	Same as above	An application has been made to the Hong Kong Courts in pursuant to section 111 of the Companies Ordinance	The company and every officer (including director, manager or secretary) who is in default liable on summary conviction to a maximum penalty of HK\$50,000.	Section 111 of the Companies Ordinance	No material impact on the operations or financial positions of the company
	Company	First annual general meeting took place in April 2006, which was more than 18 months after the incorporation of the company in October 2004  The annual general meeting of 2007 and 2009 took place in July 2007 and December 2009 respectively, which was more than 15 months after the 2006 and 2008 annual general meeting	Same as above	An application has been made to the Hong Kong Courts in pursuant to section 111 of the Companies Ordinance for directions	Same as above	Same as above	Same as above

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Item(s) of non-compliance	Name(s) of our Group company(ies)	Particulars of the non-compliance	Cause for the non-compliance	Remedial actions	Potential maximum penalty/fine	Statutory provisions made for any potential penalty/fine	Seriousness of Non-compliance incident
Non-compliance with section 122 of the Companies Ordinance	Goldpac Datacard	Failure in laying the audited accounts with respect to the period from the date of the incorporation of our Company on 8 May 2000 to 31 March 2002 to the shareholders at the annual general meeting within 9 months after the respective financial year-end	Same as above	An application has been made to the Hong Kong Courts in pursuant to section 122 of the Companies Ordinance	A director who fails to take all reasonable steps to lay a profit and loss account or balance sheet before the company in its annual general meeting commits an offence and is liable on summary prosecution to imprisonment for 12 months and a fine of \$300,000	Section 122 of the Companies Ordinance	No material impact on the operations or financial positions of the company
	Company	Failure in laying the audited accounts with respect to the period from the date of the incorporation of our Company on 8 October 2004 to 31 December 2005, and for the years ended 31 December 2006, 31 December 2008, 31 December 2010 and 31 December 2011 to the shareholders at the annual general meeting within 9 months after the respective financial year-end		An application has been made to the Hong Kong Courts in pursuant to section 122 of the Companies Ordinance	A director who fails to take all reasonable steps to lay a profit and loss account or balance sheet before the company in its annual general meeting commits an offence and is liable on summary prosecution to imprisonment for 12 months and a fine of \$300,000	Section 122 of the Companies Ordinance	No material impact on the operations or financial positions of the company

Pursuant to section 111 of the Companies Ordinance, a company incorporated in Hong Kong shall hold its first annual general meeting within 18 months of its incorporation and, thereafter, an annual general meeting in each year with not more than 15 months between two annual general meetings. Pursuant to section 122 of the Companies Ordinance, the directors of a Hong Kong company shall cause its profit and loss account and balance sheet to be made up and laid before its shareholders at each of its annual general meetings and such accounts shall be made up to a date falling not more than 9 months before the date of the meeting.

In relation to the non-compliance of our Company and Goldpac Datacard under sections 111 and 122 of the Companies Ordinance, applications has been made to the Court of First Instance of the High Court of Hong Kong for orders to rectify such non-compliance on 3 September 2013 and the hearing is scheduled on 10 October 2013, which was subsequently rescheduled to 21 November 2013. We have sought the legal opinion of a counsel in Hong Kong, and based on the affirmations in support of the court applications on the background of the case, the relevant provisions of Companies Ordinance, and relevant precedent cases, the counsel opines that (i) the applications have reasonable prospect of success; and (ii) in the event that the relevant orders are not granted by the court and prosecution is initiated, imprisonment sentence is unlikely. On the basis of the counsel's

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opinion set out above, our Directors consider that the court applications in relation to the rectifications of the non-compliances of our Company and Goldpac Datacard under sections 111 and 122 of the Companies Ordinance will not have any material adverse impact on the Listing and our future prospects.

On the basis of the above, and that the non-compliance was merely inadvertent and was not willful, our Directors understand and the Hong Kong legal advisors of our Company advised that, while the grant of a court order in relation to sections 111 and 122 of the Companies Ordinance may not by itself bar criminal enforcement by the Companies Registry of possible offences arising from past default, the likelihood of its occurrence is not high provided that the High Court of Hong Kong would have granted orders in the court applications mentioned above based on its acceptance of the explanations as set out in the affirmations submitted for the court applications of the directors of our Company and Goldpac Datacard.

In addition, our Company and Goldpac Datacard have inadvertently breached the regulatory requirements in Hong Kong relating to non-compliance of filing notices with the Registrar of the Companies within the prescribed time limit under sections 158 of the Companies Ordinance.

In relation to the non-compliance of our Company and Goldpac Datacard under section 158 of the Companies Ordinance, a letter has been sent to the Hong Kong Companies Registry to ascertain whether penalties or other actions will be imposed on Goldpac Datacard or our Company on 27 August 2013. On 10 September 2013, a standard reply letter was received from the Hong Kong Companies Registry stating that it will not on its own initiative confirm that no action will be taken against any company and they reserve all rights of prosecution for non-compliance of Companies Ordinance.

The inadvertent breach of certain sections of Companies Ordinance disclosed above was mainly because our Company and Goldpac Datacard did not have an internal company secretarial department to deal with company secretarial matters and the directors overlooked the detailed requirements of the relevant law and had misplaced reliance on professional company secretarial services providers. Nevertheless, our Group has taken additional measures to improve the corporate governance and internal controls of our Group to ensure compliance with applicable rules and regulations going forward. Please refer to the paragraph headed “Internal Control Measures to Prevent Occurrence of Non-compliance Matters After the Listing” below.

As at the Latest Practicable Date, there has not been any prosecution initiated against our Group and the then and current directors of our Company and Goldpac Datacard, nor has any of them been subject to any fine relating to the above disclosed non-compliance. The Controlling Shareholders have, pursuant to the Deed of Indemnity, undertaken to fully compensate our Group for any loss arising from such non-compliance. Our Directors consider that the non-compliance will not have a material impact on our Group’s operation or financial position. As such, no provision has been made in the financial statements of our Company and Goldpac Datacard for the potential fine and penalty.

### **INTERNAL CONTROL MEASURES TO PREVENT OCCURRENCE OF NON-COMPLIANCE MATTERS AFTER THE LISTING**

In order to improve our corporate governance and to prevent recurrence of non-compliance in the future, our Group has adopted the following measures:

- (1) our Directors attended trainings conducted by Mayer Brown JSM, the Hong Kong legal counsel of our Company, on 25 and 26 July 2013, in respect of the relevant legal and regulatory requirements of Hong Kong, and the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the Securities and Futures Ordinance and the Listing Rules;

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- (2) an audit committee with written terms of reference in accordance with Appendix 14 to the Listing Rules have been established since 15 November 2013 to review the internal control systems and procedures for compliance with the requirements of the Listing Rules and the Companies Ordinance;
- (3) we will provide our Directors, senior management and employees involved with training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time on a regular basis;
- (4) Mayer Brown JSM has been engaged by our Company as its Hong Kong legal counsel to provide Hong Kong legal advice pertaining to the proposed listing and other relevant laws and legislations of the Hong Kong, including but not limited to, the Companies Ordinance and we will appoint external Hong Kong legal advisers to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations; and
- (5) we will appoint Ms. Li Yijin, with the support of a team of 2 members with legal background, to be responsible for our Company's ongoing legal compliance. Ms. Li is an accountant qualified in Hong Kong and has the knowledge of the relevant corporate laws and regulations of Hong Kong as required by her professional qualification. Please refer to section headed "Directors and Senior Management — Senior Management" in this prospectus for further details of the qualifications of Ms. Li.

The Directors are of the view that the above steps will effectively help establish a proper internal control system and maintain good corporate governance practices to prevent future non-compliance with Hong Kong Company laws and regulations by our Group.