



3 December 2015

CHARTER PACIFIC EXECUTES STOCK PURCHASE AGREEMENT AGREEMENT WITH NEW YORK BASED INTEGRITY SYSTEMS INC.

Charter Pacific Corporation Limited (ASX:CHF) (Charter Pacific) announces that it has today signed a Stock Purchase Agreement with Integrity Systems Inc. (Integrity) to acquire 100% of Integrity.

Integrity is

- a global company manufacturing and distributing leading edge patented anti-counterfeiting technology,
- protecting the integrity of brands and products worldwide,
- delivering the capability for brands to connect with their customers in real-time,
- a mobile phone app providing multi levels of brand verification by the consumer at the point of sale,
- operating for over 15 years globally, the company manufactures ex-China with sales offices in the US, Hong Kong, China, and Sydney, and
- current annual revenue US\$12.5M with all revenue earned in US\$.

As a leader in the anti-counterfeiting industry, Integrity's two levels of anti-counterfeit solutions can be applied to almost any fabrication and substrate, to any part of a product, large or small. It provides multi levels of brand protection layered with client/consumer data integration via the use of a mobile phone app.

Integrity custom designs, manufacture and distribute labels incorporating its leading edge patented GenuineThread™ and GenuineQR Code™ to ISO 9001:2008 international standards. The application for Integrity's technology is versatile for almost any industry including pharmaceutical, apparel and accessories, food and beverage, cosmetics, electronics and automotive.

Tracked with visible and invisible protection, Integrity's patented technology is applied with labels, packaging and directly to the actual product itself to provide multi levels of brand protection.

Integrity Management Projections	Calendar year:		
	2016 US\$	2017 US\$	2018 US\$
Revenues	17,150,000	33,600,000	67,200,000
Direct Costs	<u>6,174,000</u>	<u>12,096,000</u>	<u>24,192,000</u>
Gross Earnings	10,976,000	21,504,000	43,008,000
Operating Expenses	<u>2,500,000</u>	<u>3,000,000</u>	<u>3,500,000</u>
EBIT	8,476,000	18,504,000	39,508,000

based on unaudited management accounts

Major competitive strengths:

INTEGRATION	PROVEN & FLEXIBLE SECURITY TECHNOLOGY	EXPERIENCE
QUICK & EASY DEVELOPMENT OF PROTOTYPE LABELS & THREAD	SPEED & FLEXIBILITY OF PROGRAM DEVELOPMENT & DEPLOYMENT	
SHORT OR LONG RUN FLEXIBILITY	BEST "VALUE"	GOOD DIGITAL INTEGRATION



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The market

Label and packaging material solutions is a trillion dollar industry. Counterfeiting is also in itself a trillion dollar industry.

US\$80bn: Total value spent on anti-counterfeit technology by food & pharmaceutical industry in 2014 (YPB)

US\$128.6bn: Total value of anti-counterfeiting market for packing by 2019 (Markets & Markets)

US\$1.74bn: US Customs value of good seized based on MSRP in 2013 (CSP Fiscal Year 2013 in Review)

US\$1.7Trillion: Total value of counterfeit products globally by 2015 (International Chamber of Commerce)

Charter Pacific engaged Mr Warren Pescud as Business Development Director for Hong Kong and South East Asia in early October. Warren has been instrumental in exposing the Integrity suite of technologies to a number of prominent global manufacturers and distributors who are evaluating the possibility of utilising the Integrity technologies to solve their logistical, data collation and counterfeiting issues.

Executive Chairman, Kevin Dart states “This technology opportunity for anti-counterfeiting and data capture and tracking is in the right space at the right time judging by the response and inquiry received by both Charter Pacific and Integrity since the announcement of the acquisition in September 2015.”

KEY ACQUISITION TERMS

Charter Pacific has agreed to acquire 100% of the issued capital in Integrity through the issue of 704m shares in Charter Pacific at \$0.05 per share (A\$35.2m - US\$25m).

Charter Pacific will also pay a deferred consideration of;

- Within 10 Business Days following the date on which the CHF share price reaches \$0.10 per share for a minimum of 10 consecutive ASX trading days or the 2016 or 2017 full year accounts for the labels division (the business activities currently known as Integrity Systems Inc.) achieve revenue of A\$15,000,000 or EBIT of A\$5,000,000, whichever comes first, the Buyer will issue to Sellers in their respective proportions a total of 60,000,000 fully paid ordinary shares in the Buyer;
- Within 10 Business Days following the date on which the CHF share price reaches \$0.125 per share for a minimum of 10 consecutive ASX trading days or the 2016 or 2017 full year accounts for the labels division (the business activities currently known as Integrity Systems Inc.) achieve revenue of A\$25,000,000 or EBIT of A\$10,000,000, whichever comes first, the Buyer will issue to Sellers in their respective proportions a total of 60,000,000 fully paid ordinary shares in the Buyer; and
- Within 10 Business Days following the date on which the CHF share price reaches \$0.15 per share for a minimum of 10 consecutive ASX trading days or the 2016 or 2017 full year accounts for the labels division (the business activities currently known as Integrity Systems Inc.) achieve revenue of A\$35,000,000 or EBIT of A\$15,000,000 whichever comes first, the Buyer will issue to Sellers in their respective proportions a total of 80,000,000 fully paid ordinary shares in the Buyer.
- The consideration shares will be subject to ASX escrow provisions.



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Conditions precedent for the completion of the acquisition will include:

- Calling an extraordinary general meeting of Charter Pacific shareholders to consider and if thought fit approve all of the relevant resolutions to effect the proposed transaction including;
 - The issue of consideration shares to the Integrity vendors;
 - Approval of conversion of certain Company liabilities to equity;
 - Appointing Integrity representatives to the Board of the Company;
 - Approval for Charter Pacific to issue a prospectus for a capital raising of up to \$14m to fund the roll out and expansion of the Integrity business plan, transaction costs and lodging the prospectus with Australian Securities and Investment Commission;
 - Change the name of Charter Pacific to Integrity System Limited;
 - Compliance with Chapters 1 and 2 of the ASX Listing Rules.

The completion of the acquisition will be subject to Charter Pacific shareholder approval and compliance with all ASIC and ASX regulatory requirements.

PRO FORMA CAPITAL STRUCTURE

Following the public offer and acquisition the indicative effect on the Company's capital structure will be as follows:

Event	Shares at Completion	Convertible Notes Maturing 31/5/2016	Options Expiring 26/11/2016	Deferred consideration shares
Current shareholders (3/12/2105)	183,102,691		5,000,000	
Conversion of convertible notes		2,160,000		
Consideration to Integrity shareholders	704,000,000			
Deferred consideration to Integrity shareholders				200,000,000
Conversion of debt to equity	128,606,039			
Public offer	280,000,000			
TOTAL	1,295,708,730	2,160,000	5,000,000	200,000,000

The details of the acquisition will be set out in a Notice of Extraordinary General Meeting, which will include an Information Memorandum about Integrity and an Independent Expert's Report for shareholders consideration and approval in due course.

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Integrity Systems manufactures and sells labels – woven, printed, metal & tagless- hang tags, and patches for global brands. Available in many materials, designs, sizes, patterns, finishes, cuts, and folds. Integrity helps brand owners strengthen and market their brands by incorporating their patented production process to integrate newest technologies and quality to give an excellent presentation of the brand name and logo on any product. Integrity helps consumers to purchase with confidence and ease.

Integrity empowers companies to protect their brand and engage their customers directly through its product authentication, item identification and customer engagement process available through the labels and the 4 levels of technology -:

GenuineThread™ Patented

Integrity Systems has pioneered the development of GenuineThread™, a 1mm wide secure thread which can be customized to your product and specifications and incorporated into a variety of labelling formats for inclusion into your products.

GenuineThread has proven to be an easy, economical, yet robust authentication technology.



Once your GenuineThread™ microthread has been developed, Integrity Systems can incorporate it into pressure-sensitive or woven garment labels. The GenuineThread™ is highly secure, yet does not interfere or detract from your Brand image. Pressure-sensitive labels can be tamper evident, and woven labels are fully durable for in garment use.

GenuineQR Code™ Patented



Every individual product item has its own unique ID (UID) number in the form of our patented GenuineCode, a 2D bar code. Each GenuineCode is protected by GenuineThread™ and Taggart™ to give your brand the protection of authenticity.



GenuineMag™ Patented

Integrity Systems patent pending and proprietary GenuMag™ is the key to utilizing the capabilities of GenuineThread™. GenuMag™ easily attaches to any Smartphone camera and enables the magnification, reading and capture of the GenuineThread™ image.



Radio-frequency identification (RFID)

RFID is the wireless use of electromagnetic fields to transfer data, for the purposes of automatically identifying and tracking tags attached to objects. The tags contain electronically stored information. RFID when used in conjunction with the QR codes and Integrity GenuineThread™ are suitable for wireless reading, ie robotic stocktakes.



Example of a robot conducting inventory by scanning racks.

A sample of Integrity client base:

Abercrombie & Fitch

Cabela's



kate spade
NEW YORK

T
TOM TAILOR



Calvin Klein Jeans

GIVENCHY

GUESS
JEANS



HILFINGER
DENIM



TRUE RELIGION

AMERICAN EAGLE
OUTFITTERS

chico's



TUMI



ANN TAYLOR
LOFT



VICTORIA
BECKHAM

Apple Bottoms
by Nelly



VODAFONE
McLAREN
MERCEDES

Billabong.



MARKS &
SPENCER



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ELIZABETH AND JAMES