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## OUR BUSINESS

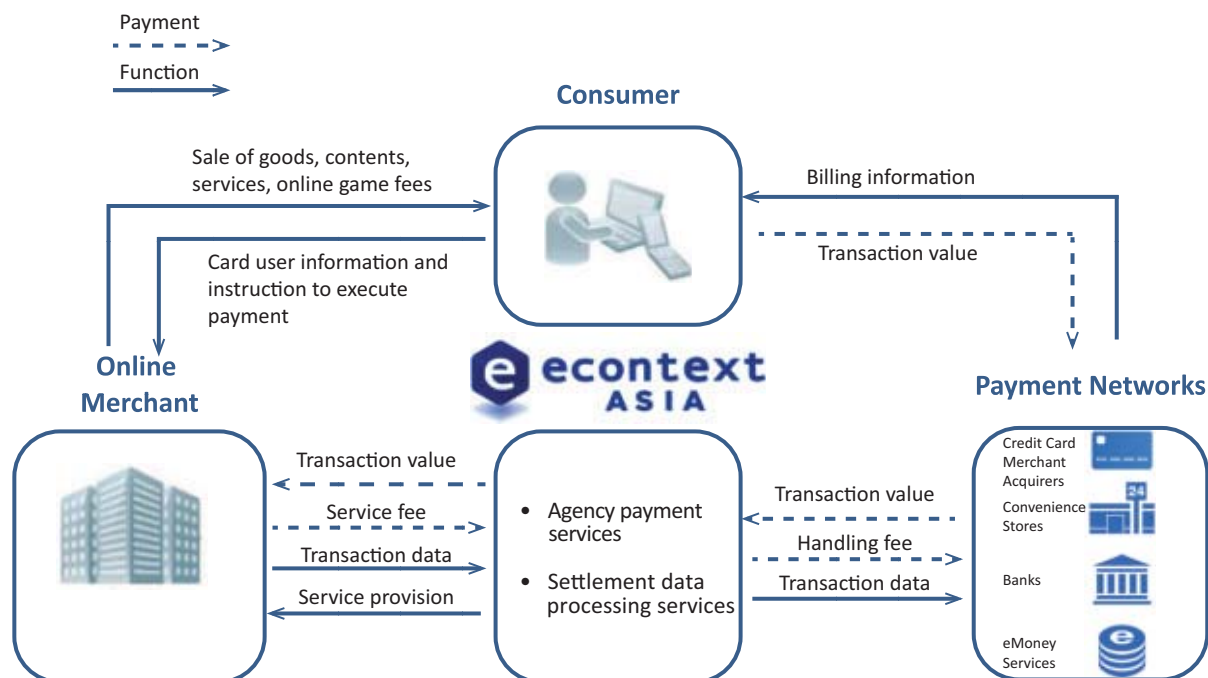
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### OVERVIEW

We are a leading provider of online payment services and e-commerce solutions in Japan. We were one of the leading online payment and e-commerce providers in Japan based on the aggregate revenue from online transactions processed for the 2011 and 2012 fiscal years according to MIC Research Institute, a Japanese market research company. Since 1997, we have designed and marketed system solutions that facilitate online payment transactions and e-commerce solutions for online merchants in Japan.

We act as an intermediary between online merchants and financial institutions or convenience store chains to facilitate processing of transaction data and the transfer of funds to online merchants for settlement of online transactions. Our online payment system network builds on technology linking the internet with the existing financial infrastructure of bank accounts, credit card, debit and ATM networks and convenience store networks in Japan to create an online payment system that serves merchants and financial institutions. Our online payment services comprise settlement data processing services and agency payment services. These services allow online merchants to accept payments via credit card, debit card, ATM or internet banking transfers, eMoney, domestic or international payment intermediaries (such as PayPal or Alipay), payments made at convenience stores throughout Japan and payments made through mobile phone carriers such as au, Softbank and docomo for settling online transactions.

The following is an illustration of our business model, showing the flow of funds for a typical transaction using our online payment services:



We provide our online payment services through our subsidiaries ECONTEXT and VeriTrans, which had a combined share of 10.9% of the online payment services market in Japan for the 12 months ended June 30, 2013 according to MIC Research Institute. VeriTrans has traditionally been recognized in the industry as an innovative online payment service provider and has contributed to the overall development of the online payment service industry in Japan by, among other things,

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developing online payment systems that allow for transactions to be settled by various payment methods, such as eMoney, and introducing value-added services such as trAd and IVR. VeriTrans also has strong relationships with credit card merchant acquirers and we have recently reinforced these relationships through the entry into of strategic partnership agreements between our Company and the three pre-IPO investors, each of which is a major credit card merchant acquirer in Japan, pursuant to which we have agreed to work together to explore future areas of cooperation. ECONTEXT has been recognized in the industry as one of the first online payment service providers in Japan with the capability of processing payments made at convenience stores throughout Japan and with the capability of acting as a convenience store interface serving four of Japan's top 10 convenience store chains, a service which is currently only provided by a few other online payment service providers. We have been ranked among other technology, media and telecommunications companies in Asia Pacific in the Deloitte Technology Fast 500 in 2005 and 2007, as well as receiving an ASP SaaS/ICT Outsourcing Award in 2010.

We also provide e-commerce solutions such as online security measures and marketing solutions for merchants and financial institutions. Our marketing solutions include services such as trAd, a settlement transaction-linked advertisement platform, and NaviPlus Recommend, a recommendation engine that optimizes a website's contents based on an analysis of data collected from users of a given website.

Our customer base consists of merchants of various industries with online operations, including, among others, mobile phone service providers, software publishers, electronics vendors, online gaming websites, insurance companies, online video and media stores, fashion, apparel and cosmetics vendors, finance companies, television stations and travel agents. As of June 30, 2013, we had 12,284 Active Merchant Websites, including those of our top five customers, namely DMM.com, Rakuten Edy, BitCash, Sony Computer Entertainment and SBI Life Living. A majority of our top ten customers during the Track Record Period have had working relationships with us for more than five years.

In 2009, we entered into partnerships with Sumitomo Mitsui Card to introduce China UnionPay cards as a settlement option for cross-border e-commerce transactions between Japanese merchants and Chinese consumers. We also operate three cross-border online shopping malls, Buy-J.com, JCB Global Shopping Mall and Ichiban Mall, through alliances with China UnionPay, JCB and MasterCard, respectively, and an informational website and marketing services under the name of JJ-Street.com, which is targeted at Chinese tourists visiting Japan.

In 2011, we established VeriTrans Indonesia, a joint venture with subsidiaries of Midplaza Holdings and Netprice.com in which we own a 23% interest. As part of the joint venture, we have provided our agency payment business model and a license to use our payment processing systems to PT. Midtrans, which operates as VeriTrans Indonesia. VeriTrans Indonesia's primary business is to provide online payment processing services to online merchants in Indonesia.

Our Company was incorporated in Hong Kong in September 2012 to serve as the holding company and regional headquarters for our operating subsidiaries and other investments as we implement our plans to further expand our business throughout Asia. However, other than potentially acquiring a minority interest in an established local e-commerce platform, we do not currently have any plans to conduct any business operations in Hong Kong of a material nature. For a description of our future plans in mature markets including Hong Kong, please see the section headed "Our Business—Our Strategies—Capitalize on high growth opportunities and expand our operations throughout Asia" in this prospectus.

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In November 2013, we became a registered owner of VeriTrans Shanghai, a joint venture owned 50% by Shanghai CardInfoLink and 50% by our Company. The primary business of VeriTrans Shanghai is to offer data processing services and software to Chinese online merchants and to online merchants outside China seeking to sell products and services in China.

In November 2013, we acquired a 15.59% interest in Citrus Singapore, the holding company of Citrus India. Citrus India is owned by Citrus Singapore as to 70% and the remaining shares are held by its founders and other investors, all of which are Independent Third Parties. The primary business of Citrus India is to offer online payment solutions, including without limitation, processing of online transactions settled via payment by credit or debit cards, or bill payment service as well as providing outsourcing services to other online payment related companies that are principally located in India.

During the Track Record Period, we derived our revenue principally from fees for our online payment services, including initial setup and monthly fees. We also derived revenue from service fees for other e-commerce solutions such as trAd, information security products and services and NaviPlus Recommend. Our revenue grew by 76.7% and 136.9%, respectively, for the years ended June 30, 2012 and June 30, 2013, in each case as compared with the immediately preceding year, reaching HK\$1,166.5 million in the year ended June 30, 2013.

The breakdown of the source of our revenue during the Track Record Period is as follows:

	Year ended June 30, 2011	Year ended June 30, 2012	Year ended June 30, 2013
	HK\$	HK\$	HK\$
Initial setup and monthly fees	5,608,505	14,203,298	46,589,452
Settlement data transaction fees	4,564,117	18,462,217	66,903,322
Agency payment fees	244,645,276	420,782,019	948,952,898
Advertising related services	—	12,410,987	58,340,054
Information security services	—	4,747,013	19,619,306
Others	23,837,943	21,831,881	26,104,387
	<b><u>278,655,841</u></b>	<b><u>492,437,415</u></b>	<b><u>1,166,509,419</u></b>

The following table sets forth our breakdown of revenue by category of services for the years ended June 30, 2011, 2012 and 2013 in Japanese yen, representing the relevant amounts prior to conversion into Hong Kong dollars for the purposes of our combined financial statements. See the sections headed “Financial Information—Qualitative and Quantitative Disclosure about Market Risk—Foreign Exchange Rate Risk” and “Risk Factors—Risks Relating to the Global Offering—Fluctuations in the exchange rates of the Hong Kong dollar may adversely affect your investment” in this prospectus.

	Year ended June 30, 2011	Year ended June 30, 2012	Year ended June 30, 2013
	¥	¥	¥
Initial setup and monthly fees	60,011,004	143,737,376	523,215,777
Settlement data transaction fees	48,836,052	186,837,636	744,666,294
Agency payment fees	2,617,704,453	4,258,314,032	10,671,888,752
Advertising related services	—	125,599,188	664,746,342
Information security services	—	48,039,772	218,248,462
Others	255,065,992	220,938,637	292,598,549
	<b><u>2,981,617,501</u></b>	<b><u>4,983,466,641</u></b>	<b><u>13,115,364,176</u></b>

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### COMPETITIVE STRENGTHS

We believe that our success to date and potential for future long-term growth can be attributed to the following competitive strengths:

#### *Recurring and scalable revenue business model based on a large customer base*

Our revenue is principally derived from monthly service fees and per transaction fees in connection with our online payment services. We believe our existing customer base provides us with a stable source of recurring revenues. For the year ended June 30, 2013, we processed approximately 123 million transactions with an aggregate value of approximately HK\$48.3 billion. Our customers typically enter into service agreements that have automatic renewal terms. The majority of our top ten customers by revenue for each of the years ended June 30, 2011, 2012 and 2013 have been our customers for more than five years. We believe that our stable revenue and strong operating cash flows will enable us to continue to invest in the development of new products and services and to continue our planned expansion in Asia.

We have a scalable business model which allows us to expand our business without the need for intensive capital investments. In general, intensive capital investments for facilities and equipment, and the costs of operating such facilities and equipment, may restrict the growth potential of our business. We derive our revenue from online payment services and other e-commerce solutions, which are mainly services provided through automated technology systems. We typically design our technology systems to have the capacity for handling many more customers and transactions than we currently serve and process. Therefore, without requirement for intensive capital investments, we are able to maintain a high degree of scalability and flexibility during both market upturns and downturns.

#### *Broad range of payment options and strong relationships with payment networks*

We operate one of the largest online payment systems in Japan and provide our customers with a broad range of payment options. As of June 30, 2013, our online payment system was connected to 376 banks, 39 credit card merchant acquirers, three electronic money (eMoney) networks and the networks of eight convenience store chains throughout Japan. Our agency payment services allow online merchants to accept payments via credit card, debit card, ATM or internet banking transfers, eMoney, domestic or international payment intermediaries (such as PayPal or Alipay), payments made at convenience stores throughout Japan and payments made through mobile phone carriers such as au, Softbank and docomo for settling online transactions. We also have one of the largest number of connection nodes to the systems of financial institutions. This allows us to handle large quantities of transactions stably and simultaneously.

We believe that we have established and maintained strong relationships with financial institutions and convenience store chains in Japan, which allow us to provide a broad range of payment options to online merchants. We were also the first online payment services company in Japan to launch services with China UnionPay (中國銀聯股份有限公司) and PayPal payment options. We have entered into agreements with China UnionPay and PayPal to facilitate payments for international consumers. Online merchants typically purchase online payment services from service providers that offer a wide range of payment options in order to maximize their consumer base. We believe that our online payment service network enables us to provide a wide variety of payment options to online merchants, therefore allowing us to maintain the loyalty and satisfaction of our customers. We also believe that financial institutions and convenience store chains typically enter into agreements with us

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in order to reduce the operating and marketing costs associated with establishing connections with each individual online merchant. We have also developed close relationships with major credit card merchant acquirers in Japan such as Sumitomo Mitsui Card, Credit Saison and JCB, which have led us to entering into the recent business and capital alliance agreements with each one of them. We believe that these strategic relationships will help us maintain our market position in the industry and maximize synergies for promoting and developing our business in Japan and elsewhere.

### ***Trusted and well recognized brand names in Japan***

VeriTrans began providing our online payment services and e-commerce solutions in Japan in 1997 under its former name, Cybercash K.K. In 2002, Cybercash K.K. went through a corporate reorganization and changed its name to VeriTrans. In 2000, ECONTEXT introduced the convenience store payment option using the ECONTEXT brand name for online transactions in Japan. Our brands ECONTEXT and VeriTrans have been recognized as two of the leading online payment solutions brands in Japan by various international magazines and publications, including Red Herring in 2008. In particular, we believe that the ECONTEXT brand name is well known in the online payment industry as a provider of agency payment services with the convenience store payment option. We believe that, through our early entry into the e-commerce market in Japan, we have established and maintained strong relationships with financial institutions and convenience store chains, industry reputation and customer loyalty in Japan. Following the acquisition of VeriTrans in April 2012, we began consolidating the businesses of VeriTrans and ECONTEXT, which has allowed us to reinforce our market position as a leading player in the online payment services industry in Japan. We also believe our early entry into the e-commerce market and our position as one of the leading online payment service providers mean that we are more experienced not only in responding to, but also in assisting to shape, rapidly changing laws and regulations governing the Japanese e-commerce industry. We believe that our ability to respond to changing laws and regulations allows us to modify our existing products and services quickly and develop new products without adversely affecting our profit margins. We also believe that our experience in the e-commerce market has allowed us to develop a platform that addresses the need for data security in online transactions and the handling of credit card information.

### ***Providing online merchants with payment and other value-added services that offer an integrated e-commerce experience and cost effectiveness***

We focus extensively on providing online payment services and related value-added services to merchants in Japan and the rest of Asia. Our services offer an attractive value proposition that meets the needs of merchants who wish to expand their business online. For example, in addition to agency payment services, we provide various e-commerce solutions such as trAd and NaviPlus Recommend. trAd is a settlement transaction-linked advertisement service that displays advertisements and promotional campaign notices on the checkout completion page to consumers fulfilling a certain set of criteria, thus facilitating higher productivity for online merchants. NaviPlus Recommend is a recommendation engine that allows online merchants to promote products to consumers based on their purchase and browsing history therefore providing a more convenient shopping experience for consumers. Furthermore, the fee structure for our online payment services provides budget certainty, encouraging online merchants to continue to grow their businesses without incurring hidden costs. We believe our extensive focus on the business needs of online merchants enables us to develop and offer better services and products for online merchants. We believe that our online payment services combined with these value-added services will offer merchants a more integrated e-commerce experience, thereby strengthening customer loyalty and providing greater cost effectiveness.



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We began our international expansion in 2009. In order to access overseas markets, especially the PRC, in a more efficient manner, we established our online payment business headquarters in Hong Kong in 2012. As of the Latest Practicable Date, our international investments included two joint ventures, VeriTrans Indonesia, in which we hold a 23% interest, and VeriTrans Shanghai, in which we hold a 50% interest. Through VeriTrans Indonesia, we have introduced our online payment services to customers in Indonesia. Through VeriTrans Shanghai, we offer data processing services and software to Chinese online merchants and to online merchants outside China seeking to sell products and services in China.

In November 2013, we acquired a 15.59% interest in Citrus Singapore, the holding company of Citrus India. Citrus India is owned by Citrus Singapore as to 70% and the remaining shares are held by its founders and other investors, all of which are Independent Third Parties. The primary business of Citrus India is to offer online payment solutions, including without limitation, processing of online transactions settled via payment by credit or debit cards, or bill payment service as well as providing outsourcing services to other online payment related companies that are principally located in India.

### *Experienced technology development team dedicated to improving user experience*

We have an experienced technology development team dedicated to improving our services for online merchants. We have built a technology platform and designed technology development processes to meet the dynamic needs of our customers. We have developed many new and enhanced features in response to requests, suggestions or feedback from our customers and market trends that we discern. Our agency payment systems are built upon the “VeriTrans 3G” system, which is a modular platform allowing for expansion and customization catered to our customers’ needs. For example, we recently launched our interactive voice response (IVR) module, which is linked to our VeriTrans 3G system, for call centers. This module allows a call center operator to switch to the IVR system so that the consumer may complete an order by submitting credit card details without the presence of the operator, thereby alleviating risks associated with mishandling of credit card information by an operator.

In November 2011, we upgraded our security measures employed in our online payment systems for settling credit card transactions, namely the Payment Card Industry Data Security Standard (PCI DSS), to version 2.0 compliant procedures. We believe that being PCI DSS version 2.0 compliant will allow us to attract medium to large e-commerce businesses that seek higher quality and more secure online payment and e-commerce solutions. In addition, being PCI DSS version 2.0 compliant qualifies us as a registered online payment service provider for credit card associations such as Visa, MasterCard, American Express, Diners Club, JCB and China Unionpay.

We have launched products for processing offline payment transactions, or “card present” or “in store” payment transactions, using kiosk terminals. We have also begun developing products for alternative offline payment solutions, such as smartphone applications that will allow small businesses to receive and process payments through credit/debit cards using their mobile device as the point-of-sale itself. Our offline payment processing products are also compatible with the VeriTrans 3G system. Certain of our hotel and cinema chain customers in Japan have started using our offline payment processing systems in conjunction with our online agency payment services. We believe that our technology platform combined with our technology development efforts allow us to offer functions, tools and features that effectively address the needs of, and provide significant value to, our users.

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### ***Experienced management team***

Our management team combines extensive experience in the e-commerce, Internet, and information technology industries, with a proven track record of operating and managing online payment and e-commerce systems successfully. In particular, Mr. Takashi Okita, CEO of econtext Asia Limited and VeriTrans Inc., has over 10 years of experience in the online payment industry. He has been a representative director of VeriTrans since 2005. VeriTrans was listed on JASDAQ from 2004 to 2011. He also served as a director of a company listed on the TSE and the Stock Exchange. Our core management team has accumulated extensive experience and expertise in competing in the internet and e-commerce industry.

### **OUR STRATEGIES**

We strive to enhance our position as a leading provider of online payment services and e-commerce solutions. The key elements of our strategies are as follows:

#### ***Increase our market share in Japan by targeting small to medium enterprises***

We intend to launch a new line of services for small to medium enterprises (“SMEs”) and optimize service features and our fee structure to stay competitive within the industry by reducing initial setup fees and monthly fixed fees. We believe SMEs will benefit from accepting payments from a wide range of sources, including credit cards, convenience stores and other payment networks. By reducing the initial setup fees and monthly fixed fees, we believe we will be able to attract SMEs to use our online agency payment services.

Since the incremental costs associated with serving an increased number of customers in our online payment services business are relatively low, we expect to improve our profit margins by serving a larger number of customers. We also believe that by reducing our transaction fees, we will be able to attract an increased number of e-commerce businesses to use our online payment services and various value-added services.

#### ***Optimize our fee structure by forming strategic alliances with credit card merchant acquirers and offering value-added services***

A substantial portion of our online payment services involve transactions settled via credit cards. Therefore, our relationship with credit card merchant acquirers is key to the success of our business. A credit card merchant acquirer is a bank or financial institution that processes credit and debit card payments for merchants. The credit card merchant acquirer accepts or acquires credit card payment instructions from the card issuers within a credit card association (such as Visa, MasterCard, American Express, Diners Club, JCB and China UnionPay). We intend to strengthen our relationships with credit card merchant acquirers by forming strategic alliances in order to attract medium to large e-commerce businesses. Medium to large e-commerce businesses typically accept payments from a wide range of credit cards. By entering into strategic alliances with the credit card merchant acquirers, we expect to optimize our fee structure and promote our services through credit card merchant acquirers to attract new customers. We also intend to attract medium to large e-commerce businesses by offering customized modules based on our existing agency payment services platform to suit their specific needs. For example, we launched our IVR system to cater to certain call centers in July 2012.

Due to the competitive nature of the online payment services industry, average fee margins and average selling prices for our online payment services will continue to be under pricing pressure. In

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order to stay competitive within the industry, we have begun to adjust our fee structure by shifting part of our revenue stream from per transaction fees for our core online payment services business towards fees charged for value-added services such as our IVR system and trAd service. For example, customers of our online payment services that subscribe to our trAd service can reduce up to two thirds of their per transaction fees to ¥5 and potentially to ¥0. We believe that providing incentives for our customers to use our value-added services will also increase our exposure in the e-commerce industry.

### ***Expand our business through selective acquisitions, investments, licensing arrangements or partnerships***

We intend to expand both our domestic and international businesses through selective acquisitions, investments, licensing arrangements or partnerships. Our objectives include expanding our customer and revenue base, widening our geographic coverage, enhancing our content and service offerings, advancing our technology and strengthening our talent pool.

As of the Latest Practicable Date, we have not identified any acquisition target and we have not, nor has anyone on our behalf, initiated any discussions, directly or indirectly, with respect to identifying any acquisition target.

### ***Capitalize on high growth opportunities and expand our operations throughout Asia***

We seek to establish a leading position in e-commerce markets throughout Asia as follows:

- *Early-stage markets in Asia*

We intend to develop our business in early-stage markets in Asia, such as Indonesia, Vietnam, Thailand and the Philippines, by entering into joint ventures with local companies. The main capital expenditures will be for localizing our online payment service system for use in the respective countries. For example, in 2011, we entered into a joint venture with subsidiaries of Netprice.com and Midplaza Holdings to establish PT. Midtrans, in which we own a 23% interest. Midplaza Holdings is an Indonesian real estate and information communication technology company which, through its subsidiaries, operates a variety of businesses, including hotel development, real estate portfolio management, resort management and IT businesses that provide synergies and complement our business, such as internet service providers and systems integrators. PT. Midtrans operates as VeriTrans Indonesia to provide e-commerce solutions and online payment services to online merchants in Indonesia. According to Euromonitor, consumer transactions settled by credit card amounted to 4.6% of the total consumer transactions in Indonesia in 2012. Since the online payment and credit card markets have not been developed in early-stage markets such as Indonesia, our strategy is to introduce our online payment systems and offline payment processing technologies concurrently. We also plan to attract more customers in early-stage markets by forming alliances with local credit card merchant acquirers so that our local joint ventures may charge lower fees. We are also currently in negotiations with potential joint venture partners to establish a platform for providing e-commerce and online payment services in several Asian countries. We intend to begin investing in such markets beginning in late 2014 and throughout 2015 and expect to allocate approximately 20% of the net proceeds from the Global Offering for investing in early-stage markets in Asia.



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- *Mature markets in Asia*

We intend to invest in e-commerce platforms in mature markets in Asia, such as Hong Kong, Taiwan, Singapore and Malaysia. For these countries, our investment plans are to acquire stakes in local companies in order to expand our business in these markets by allocating additional sales, marketing and technology development resources targeted towards these markets. We intend to begin investing in such markets beginning in late 2014 and throughout 2015 and expect to allocate approximately 15% of the net proceeds from the Global Offering for investing in mature markets in Asia.

- *Large markets in Asia*

We intend to invest in large markets in Asia such as China and India by acquiring interests in or entering into joint ventures with existing local e-commerce businesses. Due to restrictions on foreign investment in China and India, our strategy is to benefit from the economic growth by expanding our market share in such regions as a minority shareholder or joint venture partner. In November 2013, we became a registered owner of VeriTrans Shanghai, a joint venture owned 50% by Shanghai CardInfoLink and 50% by our Company. As part of the joint venture, we offer our data processing services business model to VeriTrans Shanghai to allow it to offer data processing services and software to Chinese online merchants and to online merchants outside China seeking to sell products and services in China. We intend to begin investing in such markets beginning in late 2014 and throughout 2015 and expect to allocate approximately 15% of the net proceeds from the Global Offering for investing in large markets in Asia.

The timing of and amounts allocated to investments stated above is based on our current forecast of, among other factors, our growth rate, our business requirements, our operations and prospects, changes in industry standards and future developments in the online payment services and e-commerce industries. Many of these factors are beyond our control. We cannot assure you that the timing or the investments set forth above will in fact be achieved, or that we will not experience material difficulties or delays in implementing our expansion plan.

### *Introduce offline payment processing services to broaden our scope of business*

We seek to establish a market share in the offline payment processing segment by drawing on our online payment services know-how. We plan to launch offline payment processing services in Japan and throughout Asia, beginning with smartphone applications that will allow small businesses to receive and process payments through credit/debit cards using their POS. We also intend to launch our Ad-to-Commerce solution, by drawing on our experience from trAd and adapting the service for our target countries in Asia.

## OUR PRODUCTS AND SERVICES

### **Our Online Payment Solutions**

Our online payment solutions enable online merchants to receive payments securely, conveniently and cost-effectively from consumers through a variety of settlement systems and methods. Our online payment system network builds on the technology linking the internet with the legacy financial infrastructure of bank accounts, credit card, debit and ATM networks as well as the

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networks of various convenience store chains throughout Japan to create an integrated online payment network that serves e-commerce businesses and consumers and financial institutions.

Our online payment services are built upon our settlement data processing systems. Our settlement data processing services include authorization, transaction capture, transmission of billing information, settlement and internet-based transaction processing. Our settlement data processing services are included as part of our agency payment services and also available as a standalone service for processing transactions settled via credit card where we do not act as a paying agent.

We provide our agency payment services primarily through VeriTrans and ECONTEXT. VeriTrans has a stronger focus on providing online payment services for transactions settled by credit card, whereas ECONTEXT has a stronger focus on providing online payment services for transactions settled by payment at convenience stores in Japan. Following the acquisition of VeriTrans in April 2012, we have begun to focus on providing online payment services to new online merchant customers solely through VeriTrans. While ECONTEXT continues to provide online payment services to its existing customers, we have begun to shift the focus of ECONTEXT towards providing agency payment services as a convenience store interface to online payment service providers, including VeriTrans, for transactions settled at convenience store chains in Japan.

Following the acquisition of VeriTrans, we have begun to focus development of our online payment service system at VeriTrans and our convenience store interface system at ECONTEXT. We do not intend to further develop ECONTEXT's online payment service system for serving online merchants, and therefore, we expect that existing online merchant customers of ECONTEXT will eventually migrate to VeriTrans system for online payment services. Such migration is expected to occur when the existing ECONTEXT customers implement major upgrades to their websites.

To use our online payment systems, an online merchant must first contact us for a quotation and submit an application to subscribe to our services. During the application process, we will work with the online merchant to select the payment and settlement methods that suit the particular needs of its business. We will also provide the online merchant with an option to subscribe for our trAd services, which reduces the per transaction fees associated with online payment services. Our sales team then passes the online merchant's information to our credit screening division, who then performs background checks on the merchant's business and reviews the line of products and/or services the online merchant wishes to sell through its website. During the credit screening process, we liaise with the relevant financial institutions (for example, credit card merchant acquirers) and/or convenience stores to obtain their approval to allow us to act as an intermediary between the online merchant and the relevant financial institution or convenience store. Concurrently, our sales team begins the process of negotiating a service contract with the online merchant. Once the online merchant enters into a non-disclosure agreement, we will provide our proprietary Merchant Development Kit (MDK) software to the online merchant to begin testing the connections between the online merchant's website and our online payment systems. Once the credit screening process is complete and we have obtained the necessary approvals from the relevant financial institutions or convenience stores, we will finalize our service contract with the online merchant. The entire process, from submitting an application to beginning to use our online payment systems, generally requires four weeks.

For the year ended June 30, 2013, we processed approximately 123 million transactions with an aggregate value of approximately HK\$48.3 billion.

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### *Agency Payment Services*

Our agency payment services are built upon the technology used for our settlement data processing services, and include services where we act as an agent to transfer funds received from financial institutions or convenience stores to the online merchants. Our agency payment services allow online merchants to accept payments via credit card, debit card, ATM or internet banking transfers, eMoney, domestic or international payment intermediaries (such as PayPal), and payments made at convenience stores in Japan for settling online transactions. For transactions where a consumer makes payments to an online merchant through financial institutions, our agency payment services reduce the administrative burden of an online merchant by consolidating and managing all payments, including the transfer of funds, for the online merchant.

We enter into contracts with online merchants directly to provide agency payment services. Once an online merchant has subscribed for our services, we typically become the online merchant's primary point of contact for payment related matters. A transaction occurs when a consumer purchases something from an online merchant who has contracted with us. When making a purchase, consumers will have the option of selecting from various payment methods depending on the scope of agency payment services pre-selected by the online merchant.

### *Payments through financial institutions*

Our agency payment services allow online merchants to receive payments from consumers made via credit card, debit card, ATM or internet banking transfers, eMoney and other forms of online payments (such as China UnionPay and PayPal).

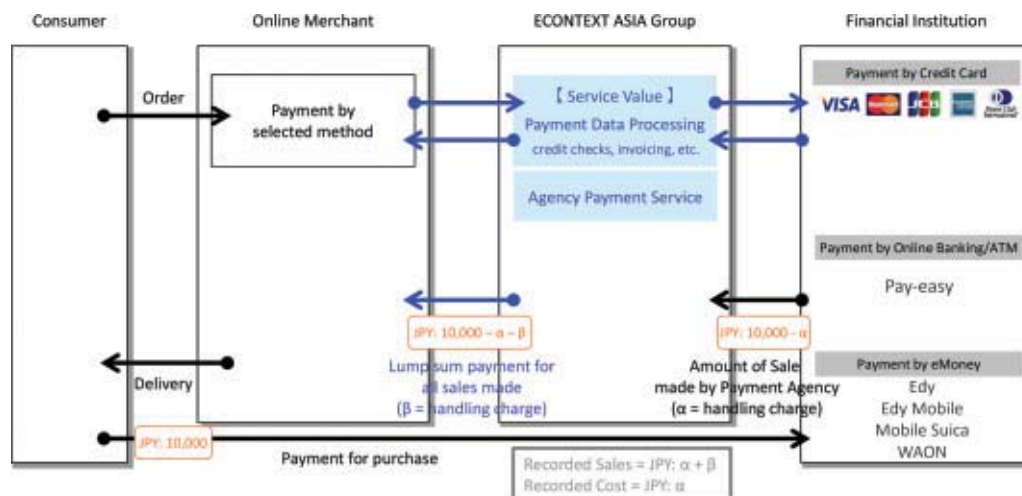
We serve as an intermediary between the online merchant and the financial institutions, including credit card merchant acquirers and banks by:

- obtaining authorization for the transaction from the financial institutions;
- transmitting the transaction data to the financial institutions;
- receiving the transaction amounts from various financial institutions periodically; and
- paying the online merchant for their products or services sold periodically.

We typically receive the funds from the financial institution prior to paying the online merchant.

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The following is an illustration showing the flow of funds for the typical types of transactions using our agency payment services and settled by payment through financial institutions:



When a consumer commits to a transaction with an online merchant and provides his credit card, debit card or eMoney data on an online merchant's website, the transaction and payment data are sent to our system. We then obtain authorization for the transaction from the relevant financial institution, verifying that the cardholder or account holder has sufficient credit or adequate funds for the transaction. For transactions settled by credit card in Japan, the transaction data is typically processed either through the Credit And Finance Information Switching (CAFIS) or CARDNET systems, online switching networks operated by NTT DATA and JCN, respectively. CAFIS and CARDNET are connected to the various credit card merchant acquirers and redirect the transaction data to the relevant credit card merchant acquirer's network. The credit card merchant acquirer then transmits the data to the credit card issuer, and the credit card issuer will approve the transaction and charge the consumer's account for the transaction amount. We are also a member of the Pay-easy network, a system linking Japan's banking network with various governmental departments, public utilities and companies. Pay-easy allows consumers to make payments to Pay-easy members via ATM, telephone or internet transfers. For transactions settled by debit card, eMoney or bank account data, once the relevant financial institution approves the transaction, we transmit the transaction data to the relevant financial institution and the consumer's account is charged for the transaction.

Under our service contracts with online merchants for the provision of agency payment services, we have a contractual obligation to act as an agent on behalf of the online merchants to receive funds from financial institutions and convenience stores and to transfer such funds to the online merchant. Our contractual obligation to transfer funds to online merchants arises at the time we receive funds from a financial institution. If we do not receive any funds from the financial institution, we do not have a contractual obligation to transfer any money for transactions settled via such financial institution to the online merchant.

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Each financial institution will calculate the amounts due to us and transfer to us the relevant funds periodically. Set forth below is a table showing the billing cycle, which is the frequency with which financial institutions calculate the amounts to be transferred to us, and the timing for receiving funds from various financial institutions.

	<u>Billing cycle</u>	<u>Timing of funds receipt</u>
<b>Credit card merchant acquirers</b>	Semi-monthly (15 <sup>th</sup> of the month and end of the month).	Semi-monthly. Funds are transferred to us: <ul style="list-style-type: none"> <li>● at the end of the month for transactions processed between the 1<sup>st</sup> and the 15<sup>th</sup> of the month; and</li> <li>● on the 15<sup>th</sup> of the following month for transactions processed between the 16<sup>th</sup> and the end of the month.</li> </ul>
<b>Banks (online banking or ATM)</b>	Daily.	Within 3 business days.
<b>eMoney service providers</b>	Monthly or semi-monthly depending on the system.	For eMoney systems to whom we transmit billing information on a monthly basis, funds are transferred to us on a monthly basis by the end of the month following the month of the billing information.  For eMoney systems to whom we transmit billing information on a semi-monthly basis funds are transferred to us: <ul style="list-style-type: none"> <li>● at the end of the month for transactions processed between the 1<sup>st</sup> and the 15<sup>th</sup> of the month; and</li> <li>● on the 15<sup>th</sup> of the following month for transactions processed between the 16<sup>th</sup> and the end of the month.</li> </ul>
<b>China UnionPay</b>	Daily. China UnionPay generates a settlement report of the transactions we transmit on a daily basis.	Funds relating to each settlement report are transferred to us on the following business day.
<b>PayPal</b>	Daily.	Within 2 business days.

We pay each online merchant within 45 business days after receiving the money from the relevant financial institution depending on the terms of the service contract.

The frequency with which we transfer funds to an online merchant varies depending on the terms of our service contract with such online merchant. Online merchants select the frequency of funds transfer depending on the financial institution involved, the number of payment options and the service fees we charge. In the case of agency payment services settled by payment through credit card merchant acquirers, we typically transfer funds to an online merchant either once or twice a month in arrears. We believe that terms of our service contracts for our agency payment services, whereby we transfer funds to online merchants according to the frequency of funds transfer as agreed with the

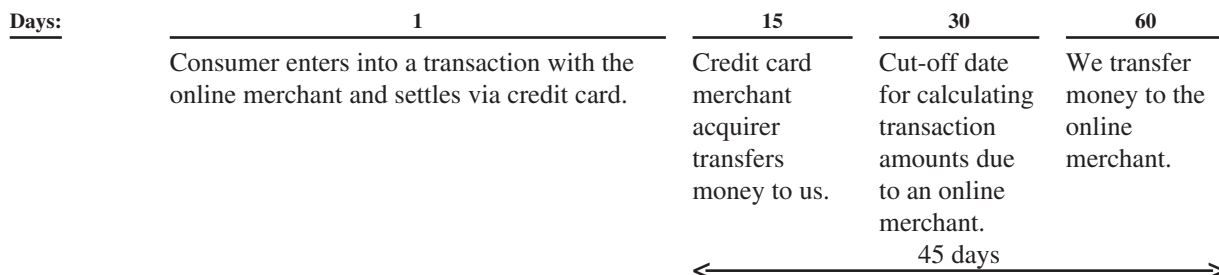


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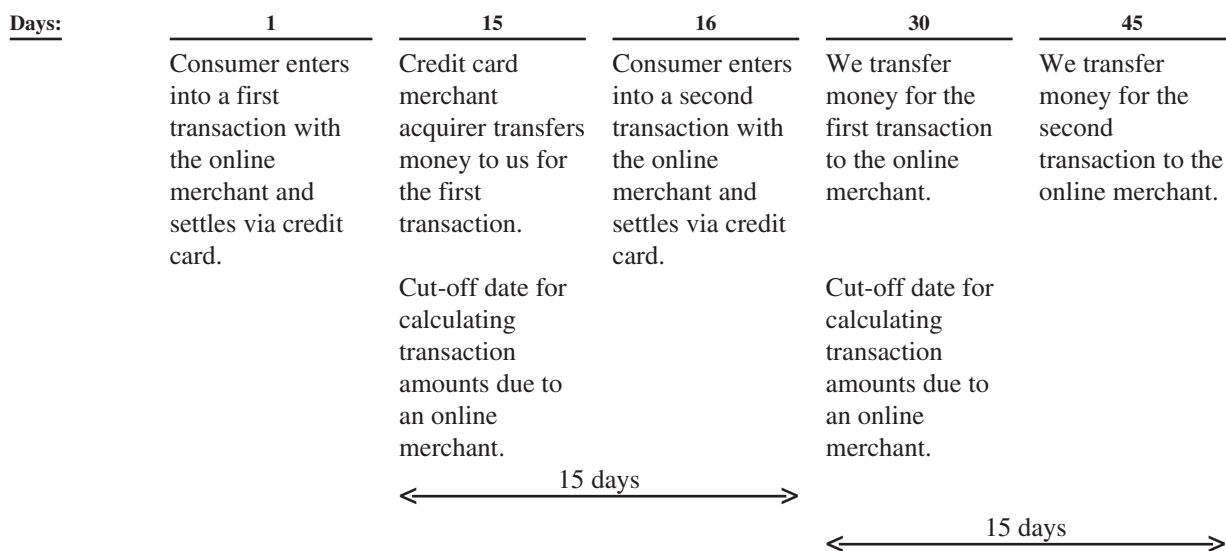
## OUR BUSINESS

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online merchant and within a certain period of time after we have received funds from the relevant credit card merchant acquirer or convenience store chain, are consistent with market practice in the online payment services industry in Japan. Set out below is a timeline showing the timing of funds transfer for a typical credit card settled transaction, assuming that we transfer funds to the online merchant once a month in arrears.



Set out below is a timeline showing the timing of funds transfer for a typical credit card settled transaction, assuming that we transfer funds to the online merchant twice a month in arrears. The majority of our service contracts provide for funds to be transferred to an online merchant twice a month in arrears for credit card settled transactions.



Under certain of our service contracts with online merchants, we provide advance payments to the online merchant at a higher frequency than we receive funds from credit card merchant acquirers or convenience store chains. Online merchants that wish to be paid more frequently in advance of our receiving funds from credit card merchant acquirers or convenience store chains are required to accept additional terms and conditions with respect to such advance payments at the time of signing a service contract for our services. We initially provided this advance payment service at an extra nominal charge. However, due to the increased amount of competition among online payment service providers, most of our advance payments are currently provided at no extra charge. The amount of advance payment that we allow for an online merchant depends on the commercial relationship and creditworthiness of the online merchant. We regularly monitor account activities of each online merchant for extraordinary activity, especially at the time of making advance payments. Any extraordinary activity detected, including a sudden increase in the amount of any transfer to be made to the online merchant, will trigger our review and investigation on the relevant online merchant, at which

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## OUR BUSINESS

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time we will review the online merchant's eligibility for an increase in the amount of advance payments based on its commercial relationship with us and its creditworthiness. The maximum amount that is transferred to an online merchant, whether as an advance payment or not, is limited to the aggregate transaction amounts processed minus any intermediary service fees, including our service fees. In the situation where we transfer funds to any merchant in advance of our receiving the transaction amount from the relevant credit card merchant acquirer or convenience store chain, we bear the risk of recovering any advanced amounts from the credit card merchant acquirers and convenience stores under our service contract with online merchants. However, we believe that there is no significant credit risk from amounts advanced to online merchants pending payment by credit card merchant acquirers and from payment processing receivables as the counterparties are credit card merchant acquirers, which are generally banks licensed and regulated by relevant authorities in the respective jurisdictions and major convenience store chains in Japan, most of which are listed companies in Japan. During the Track Record Period, there have been no incidents of default on the part of credit card merchant acquirers or convenience store chains in connection with any advance payments. For the years ended June 30, 2011, 2012 and 2013, we provided advance payments to 0.31%, 1.35% and 1.09% of our online merchant customers.

Our revenue is generated from:

- initial setup and monthly account fees;
- settlement data transaction fees charged to an online merchant comprising per transaction service fees based on a fixed rate per transaction; and
- per transaction agency payment fees charged to an online merchant. Agency payment fees are typically a percentage of transaction amount in the case of transactions settled via credit card, eMoney, China UnionPay or PayPal, or a fixed fee in the case of ATM or internet banking transfers.

Each participant in the transaction (other than the online merchant and the consumer) receives compensation for processing the transaction. For example, in a transaction using a credit card, the credit card merchant acquirer will bill the cardholder (the consumer) the transaction amount on its monthly statement. The credit card merchant acquirer will retain assessment fees and forward to us the transaction amount net of such assessment fees. We will retain service fees and pay the remaining amount to the online merchant. The assessment fees retained by the credit card merchant acquirer are typically calculated as a percentage of the transaction amount and are set by the credit card merchant acquirer. Our service fees, comprising agency payment fees and settlement data transaction fees, are negotiated between the online merchant and us.

From time to time, we may incur liabilities arising from a billing dispute between an online merchant and a credit cardholder, where the credit cardholder either claims that he had not entered into a transaction or that the amount charged was incorrect. Such disputes may ultimately be resolved in the credit cardholder's favor. Under the terms of our agreements with online merchants, the online merchant is responsible for confirming whether a consumer is a real cardholder. If the online merchant confirms that the consumer is not the credit cardholder and the transaction was the result of fraudulent use of credit cardholder's card, the transaction will be "charged back" to the online merchant and the disputed amount will be credited or otherwise refunded to the credit cardholder. If a dispute occurs

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## OUR BUSINESS

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after the credit card merchant acquirer has transferred funds to the online merchant and the dispute is found in the cardholder's favor, the online merchant will be required to return the funds for the disputed transaction to the credit card company. Alternatively, the credit card merchant acquirer may set-off the transaction amount from funds to be paid to the online merchant. If we are unable to collect this amount from the online merchant, due to the merchant's insolvency or other reasons, we will bear the loss for the amount of the refund paid to the credit cardholder. See "Risk Factors—Risks Relating to Our Business—We are subject to the credit risk that our online merchants will be unable to satisfy obligations for which we may also be liable." During the Track Record Period, we did not incur any losses as a result of transactions being charged back.

### *Payments through convenience stores*

Our agency payment services allow online merchants to receive payments from consumers made at participating convenience stores across Japan. Settlement at convenience stores does not require a consumer to have a credit card and is available for any single transaction for an amount not exceeding ¥300,000. As of June 30, 2013, our system allowed for settlement at eight of Japan's top 10 convenience store chains.

In order to provide the option for consumers to make payments at convenience stores for settling online transactions, ECONTEXT has entered into agreements with various convenience store chains in Japan to act as a convenience store interface and a data hub for processing transaction data received from online payment service providers to be sent to convenience store chains through their respective data networks. We provide convenience store interface services by acting as the data processing agent between online payment service providers without convenience store interfacing capabilities, such as VeriTrans, and convenience store chains. In order to allow consumers to make payments at convenience stores, online merchants may enter into agency payment service agreements with ECONTEXT directly or request for such services through an online payment service provider, such as VeriTrans, which in turn will enter into a service agreement with ECONTEXT for convenience store interface services.

For online merchants that enter into a service contract directly with ECONTEXT for agency payment services, ECONTEXT serves as an intermediary between the online merchant and the networks of various convenience store chains by:

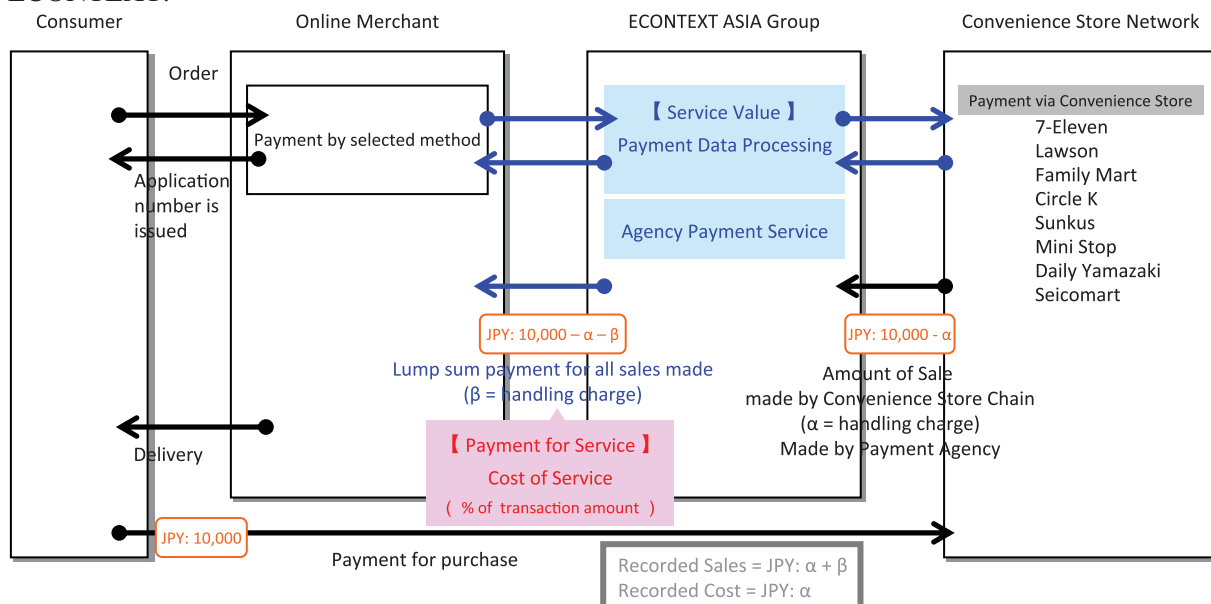
- obtaining the transaction data from the online merchant;
- sending billing information with the transaction data and transaction identification codes to consumers directly or through the online merchants;
- transmitting the transaction to the convenience store network;
- obtaining confirmations of receipt of payment from the convenience store network;
- receiving funds from convenience stores; and
- paying the online merchant for the transaction.

We typically receive funds from the convenience store chain prior to paying the online merchant. Under the terms of our service contracts with online merchants, we are deemed to have received funds for the purposes of triggering our contractual obligation to transfer funds to an online merchant at the time a consumer pays for its purchase at a convenience store. Where a consumer has

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paid for the transaction at a convenience store but we do not receive any funds from the relevant convenience store chain, we will still be under a contractual obligation to transfer money to the online merchant. However, we believe that there is no significant credit risk in this situation, as the convenience store chains we deal with are generally major chains in Japan, most of which are listed companies in Japan and such amounts are usually settled within 30 days of the transaction date. See the section headed “Risk Factors—Risks Relating to Our Business—We are subject to the credit risk that convenience store chains will be unable to transfer funds that they have received from consumers for which we will be liable to pay to online merchants” in this prospectus. During the Track Record Period, we did not experience any instances of non-payment or insufficient payment from convenience store chains.

The following is an illustration showing the flow of funds for a typical transaction settled by payment at convenience stores where an online merchant enters into a service contract directly with ECONTEXT:



Alternatively, online merchants may enter into a service contract with other online payment service providers, such as VeriTrans, for agency payment services. Such online payment service provider will enter into a wholesale contract with ECONTEXT, as a convenience store interface, to allow consumers to make payment at convenience stores. The online payment service provider, such as VeriTrans, serves as an intermediary between the online merchant and ECONTEXT as the convenience store interface by:

- obtaining the transaction data from the online merchant;
- sending billing information with the transaction data and transaction identification codes to consumers directly or through the online merchants;
- transmitting the transaction to ECONTEXT as the convenience store interface;
- obtaining confirmations of receipt of payment from ECONTEXT as the convenience store interface;
- receiving funds from ECONTEXT as the convenience store interface; and
- paying the online merchant for the transaction.

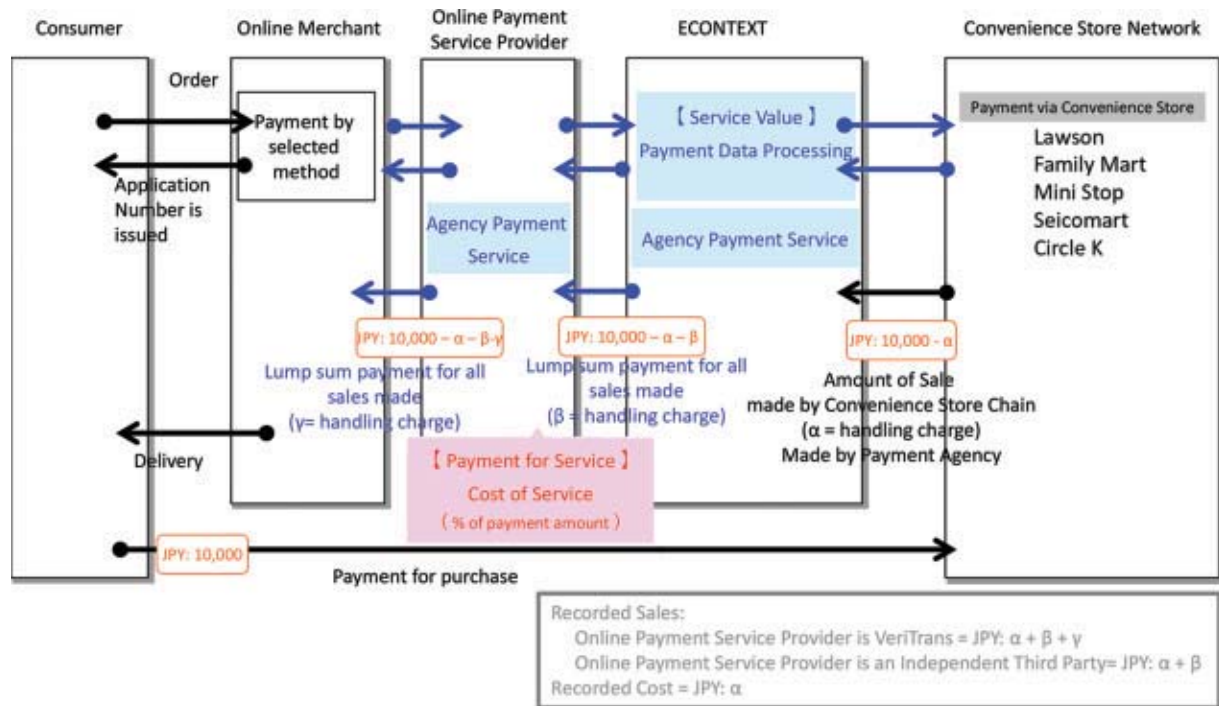
Online payment service providers typically receive the funds from ECONTEXT as the convenience store interface prior to paying the online merchant.

## OUR BUSINESS

ECONTEXT, as the convenience store interface, serves as an intermediary between the online payment service provider and the networks of various convenience store chains by:

- obtaining the transaction data from the online payment service provider;
- sending billing information with the transaction data and transaction identification codes to the online payment service provider;
- transmitting the transaction to the convenience store network;
- obtaining confirmations of receipt of payment from the convenience store network;
- receiving funds from convenience stores; and
- transferring funds to the online payment service provider for the transaction.

The following is an illustration showing the flow of funds for a typical transaction settled by payment at convenience stores where an online merchant enters into a service contract with an online payment service provider without convenience store interface capabilities, and such online payment service provider enters into a wholesale contract with ECONTEXT as the convenience store interface for agency payment services:



When a consumer commits to a transaction with the online merchant and selects to settle the transaction at a convenience store, the relevant online payment service provider or the online merchant will send the consumer by e-mail billing information with the transaction data and a transaction identification code. The consumer is required to input the transaction identification code at a kiosk terminal at any participating convenience store across Japan. The kiosk terminal will print a receipt with a barcode, which the consumer is required to present to the cashier within a certain period of time. Upon presenting the barcode to the cashier, the cashier will scan the barcode to retrieve the transaction data from our interface system. Once the consumer pays the transaction amount at a participating convenience store, the convenience store will send a real-time instruction to our system confirming receipt of payment for the transaction. Under the terms of our service contracts with online merchants,



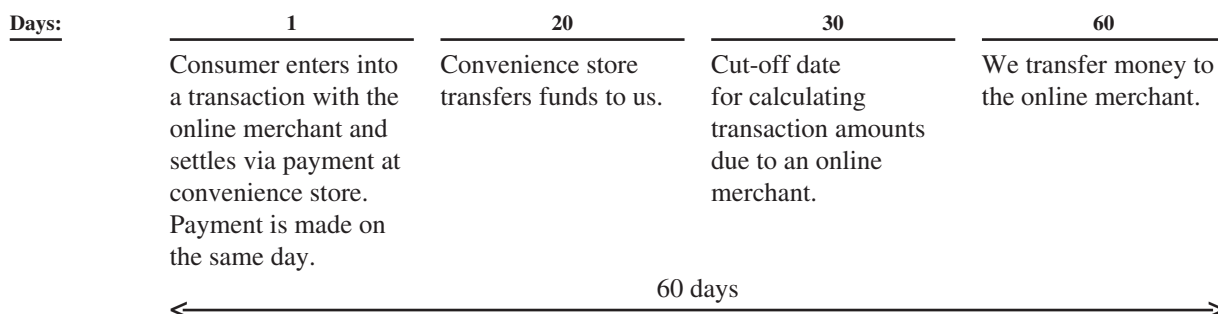
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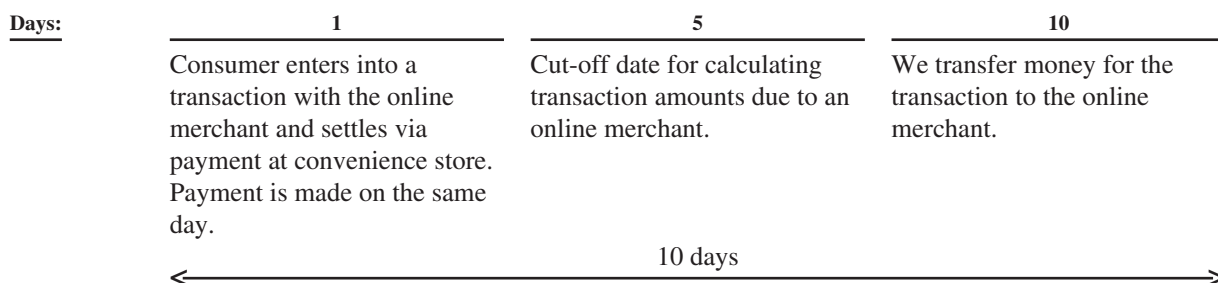
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we are deemed to have received funds for the purposes of triggering our contractual obligation to transfer funds to an online merchant at this time. We then notify the online merchant directly, where ECONTEXT is the online payment service provider, or through the relevant online payment service provider that the transaction has been settled so that the online merchant can proceed with delivery of the purchased goods or provision of the purchased services.

The convenience store chains typically calculate the aggregate transaction amounts received and deliver reports to us periodically. Depending on the terms of our agreement with the particular convenience store chain, the convenience store chain will deliver reports and transfer funds to us at frequencies ranging from daily to six times a month. Set out below is a timeline showing the timing of funds transfer for a typical convenience store settled transaction, assuming that we transfer funds to the online merchant once a month in arrears.



Set out below is a timeline showing the timing of funds transfer for a typical convenience store settled transaction, assuming that we transfer funds to the online merchant six times a month in arrears.



We pay the online merchant or the relevant online service provider within 60 days after receiving the relevant funds from the convenience store chain depending on the terms of the service contract.

Our revenue from agency payment services for transactions settled through convenience store chains is generated from:

- initial setup and monthly account fees;
- settlement data transaction fees for convenience store payments; and
- per transaction agency payment fees charged to an online merchant. Agency payment fees vary depending on the range of the transaction amount.

Each participant in the transaction (other than the online merchant and the consumer) receives compensation for processing the transaction. For example, in a transaction where the consumer chooses to make payment at a convenience store, the consumer will pay the transaction amount at the

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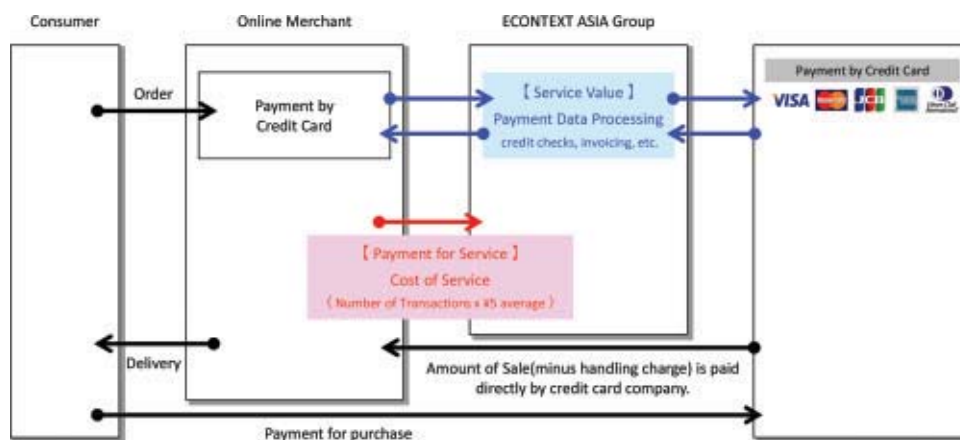
convenience store. The convenience store chain will retain fixed processing fees and forward the remaining amount to us. We will retain our service fees and pay the remaining amount to the online merchant or the online payment service provider, as the case may be. The processing fee retained by the convenience store is set by the convenience store chains. Our service fees, comprising the agency payment fees and settlement data transaction fees, are negotiated between the online merchant or online payment service provider and us.

### *Standalone credit card settlement data processing services*

These services pertain to transactions in which consumer payments to online merchants are settled via credit card where we do not act as a paying agent. Online merchants must be approved by the relevant credit card merchant acquirer(s), such as JCB, Sumitomo Mitsui Card, and Mitsubishi UFJ Nicos, in order to use these services. Online merchants that use our settlement data processing services without our agency payment services receive funds directly from the credit card merchant acquirers. The online merchant is also responsible for settling refunds and chargebacks directly with the credit card merchant acquirers. We enter into contracts with online merchants to facilitate their handling of consumers' credit cards for payment and serve as an intermediary between the merchant and credit card merchant acquirers by:

- obtaining authorization for the transaction from the credit card merchant acquirer through a credit card association's network system; and
- transmitting the transaction data to the credit card merchant acquirer through the applicable credit card association's network system.

The following is an illustration showing the flow of funds for a typical transaction using our standalone settlement data processing services:



As part of our standalone settlement data processing services, we also provide online merchants with consolidated invoices and credit card information storage services.

Revenue from standalone settlement data processing services is generated from fees charged to an online merchant comprising an initial setup fee, monthly account fees and service fees charged per transaction.

For the years ended June 30, 2011, 2012 and 2013, approximately 0.5%, 6.4%, and 4.9% of the Company's online merchant customers utilized our standalone settlement data processing services without using agency payment services. The majority of these customers are merchants that began their businesses offline or using mail-order systems prior to the use of the internet becoming widespread in

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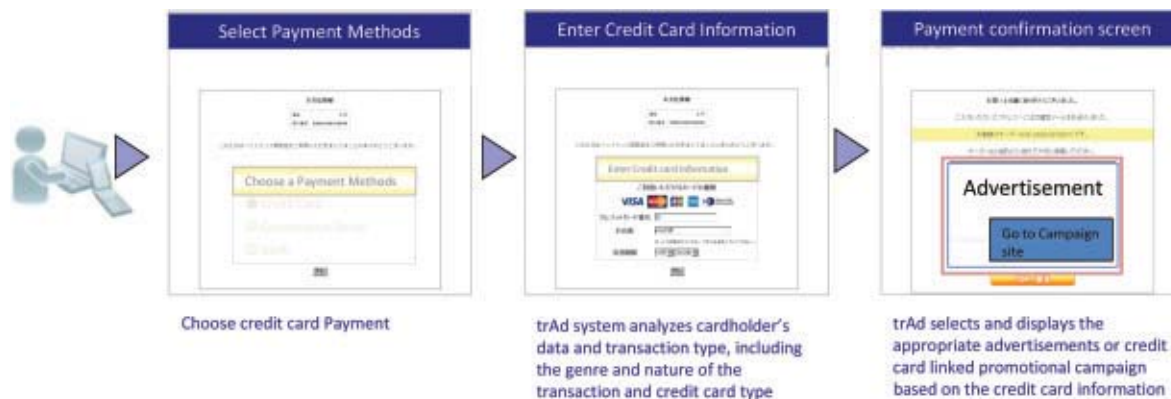
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Japan and are generally merchants of a larger scale that had existing contracts with credit card merchant acquirers which included favorable terms prior to beginning their online businesses.

### Our e-commerce Solutions

We offer various e-commerce solutions on a standalone basis or as value-added services to customers of our online payment services.

#### *trAd, a transaction-linked advertisement service*



trAd is an advertisement service linked with transactions settled via credit card. Our trAd service allows advertisements and credit card linked promotional campaigns to reach their intended audience by matching a consumer's spending pattern with appropriate advertisements or promotional campaigns at the time of settlement. Once a consumer enters his credit card information to settle a transaction, our system analyzes the cardholder's data and transaction type, including the genre and nature of the transaction and credit card type, and selects the appropriate advertisements or credit card linked promotional campaigns to display on the payment confirmation screen. The matched data is then stored on our database. Customers of our online payment services that subscribe to the trAd service receive a substantial discount on the per transaction settlement data transaction fees.

We also offer trAdPlus to online merchants. trAdPlus enhances our trAd service by increasing the frequency and exposure of display of an advertisement or promotional campaign, by displaying advertisements and promotional campaigns on other advertising networks such as ADJUST and MicroAd, operated by Cyber Communications Inc. and MicroAd Inc., respectively, each an Independent Third Party, and Performance X, an advertisement targeting system in Japan linked with various ad exchanges operated by Cyber Communications Inc. These advertisement networks collectively cover substantially all mainstream media outlets in Japan. By connecting these platforms to our trAd database, customers' advertisements will be disseminated more widely and more frequently.

We generate revenue from trAd and trAdPlus by fees from customers every time their advertisements are displayed through our trAd service. We encourage online merchants to use our online payment services to subscribe to our trAd service by providing discounts that can potentially reduce up to two thirds of the regular per transaction fees.

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### *Information Security Products and Services*

We offer information security products and services both as value-added services to our existing customers and as standalone services. We provide various security solutions through eCURE, including the provision of SSL Server Certificates, Verisign Japan Personal Class 2 Certificates and Verisign Japan Code Signing Certificates, internet security vulnerability assessments and security consultation services. For the years ended June 30, 2011, 2012 and 2013, revenue from our information security products and services amounted to nil, HK\$4.7 million and HK\$19.6 million, respectively. Revenue from our information security products and services is primarily generated from sales by eCURE of SSL Server Certificate coupon packages, which accounted for 0%, 100% and 100% of the total revenue from our information security products and services for the years ended June 30, 2011, 2012 and 2013, respectively.

### *SSL Server Certificates*

Secure Sockets Layer (SSL) are cryptographic protocols that provide communication security over the Internet. SSL Server Certificates are small data files that digitally bind a cryptographic key to a website owner's details, encrypt all data flowing to and from the certificate holder's website and make all exchanges between the website and its visitors private. For example, if a merchant wishes to transfer data (such as user information or credit card data) between its consumers and its website securely and privately, the merchant will be able to do so by installing SSL Server Certificates on its web server. When installed on a web server, it activates the https protocol and allows secure connections from a web server to a browser. We offer coupon packages for obtaining SSL Server Certificates from Verisign Japan and CyberTrust. The coupons are prepaid credits for exchanging either Verisign Japan or CyberTrust SSL Server Certificates at a discount price.

### *NaviPlus Recommend*

NaviPlus Recommend is a marketing tool and recommendation engine designed for improving and optimizing a website's contents by allowing online merchant websites to display recommended items for returning consumers. Our NaviPlus Recommend recommendation engine gathers data based on a consumer's purchase and browsing history and generates item recommendations based on a hybrid algorithm combining collaborative filtering and text mining.

We also offer a product search function powered by our Kotohako EC Engine 2 as part of our NaviPlus Recommend services. The Kotohako EC Engine 2 provides online merchants with product search capabilities on their website so that consumers may easily find the products they wish to purchase. Our Kotohako EC Engine 2 may also be used with our NaviPlus recommendation engine to provide product recommendations to consumers when they input their searches.

Revenue from NaviPlus Recommend services is generated primarily from, among other things, monthly service fees. For the years ended June 30, 2011, 2012 and 2013, our revenue from NaviPlus amounted to nil, HK\$12.4 million and HK\$58.3 million, respectively.

### *Settlement Support Services*

Settlement support services are value-added services that may be used for customizing our online payment services to cater to a customer's specific needs.

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### *IVR System*

In July 2012, we launched our IVR module as an add-on feature for our agency payment services. This module allows a call center operator to switch to the IVR system so that the consumer may complete an order by submitting credit card details without the presence of the operator, thereby alleviating risks associated with mishandling of credit card information by an operator.

### *Offline Settlement System*

In January 2013, we introduced a module linking self-check-in machines at hotels with our VeriTrans 3G platform. Once a consumer inserts their credit card to a self-check-in machine, the information is sent through to our settlement data processing system for settlement.

### ***Funds Transfer System, “CASH POST”***

CASH POST enables merchants to send funds (including refunds due to cancellation or return of goods) to consumers securely, conveniently and cost-effectively by way of email. In order to send funds, the merchant enters the recipient’s information, the minimum requirements being the recipient’s email address and telephone number, into our system, which then generates and sends a transaction code and a website address specific to the transaction to the recipient’s email address. The recipient will then be able to click on the link to the website address to input his bank account details, which are then sent back to our system. Once our system has received the recipient’s information, funds are withdrawn from our CASH POST account and transferred to the recipient’s bank account.

Merchants are required to prefund our CASH POST account prior to making any CASH POST payments. Merchants may prefund our CASH POST account by:

- depositing an amount of money into our CASH POST account and keeping a balance on our system for CASH POST transactions;
- depositing the amount for each CASH POST transaction; or
- for merchants that are customers of our online payment systems, requesting for an advance for the CASH POST transaction to be billed to its monthly account (or set off against transaction amounts from our agency payment services, if any).

Revenue from CASH POST is generated from per transaction service fees.

### **Online Shopping Malls**

We currently operate three online shopping malls, Buy-J.com, JCB Global Shopping Mall and Ichiban Mall, which are complete online platforms created in alliance with China UnionPay, JCB and MasterCard, respectively. These online shopping malls use our VeriTrans 3G system and allow international customers to purchase products from Japanese merchants. As our online shopping malls are operated as Japanese businesses by our subsidiaries in Japan, Japanese online merchants operating on these malls are not required to obtain licenses in the relevant countries in which international customers are located. Merchants who subscribe to our online shopping mall services benefit from an end-to-end service package which reduces the administrative burden to the merchant of promoting overseas transactions. Our online shopping mall service package includes agency payment, translation, logistics, marketing and customer support services. Logistics services for our online shopping malls are provided by an Independent Third Party. Transactions on the online shopping malls are generally settled via credit cards or debit cards of the relevant credit card brand associated with the online



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shopping mall. Revenue from our online shopping malls is primarily generated from, among other things, initial setup fee, monthly service fees and per transaction fees for agency payment and logistics services. For each of the years ended June 30, 2011, 2012 and 2013, total revenue from our online shopping mall services accounted for less than 1.0% of our Group's revenue.

In November 2013, we launched BuySmartJapan, a shopping service website targeted at consumers outside of Japan and operated by VeriTrans in association with Kakaku.com. Kakaku.com is a shopping comparison website in Japan operated by Kakaku.com, Inc. BuySmartJapan enables consumers outside of Japan to purchase selected products listed on Kakaku.com. The website uses VeriTrans' cross-border platform and supports four different languages, allowing users to choose from English, Chinese (in both simplified and traditional characters), Korean and Japanese. Once the consumer pays for the product and the verification of payment is received by BuySmartJapan, it acts as the purchasing agent to purchase the product on behalf of the consumer in Japan and, upon receipt of the product, ships the product overseas to the consumer. The products available through BuySmartJapan can be delivered to overseas consumers in over 120 global regions outside of Japan. BuySmartJapan supports major credit cards, Alipay, China UnionPay and PayPal as payment options. Revenue from our BuySmartJapan website is primarily derived from product handling fees, which are currently set at 10% of the purchase price. As our BuySmartJapan website is operated as a Japanese business within Japan, we are not subject to licensing regulations in various international regions where consumers may be located.

### **Overseas Marketing**

As part of our international operations, we operate an informational website and marketing services under the name of JJ-Street.com, which is targeted at Chinese tourists visiting Japan. The website promotes Japanese online merchants that accept China UnionPay cards. Data for JJ-Street.com is also replicated to a server in Beijing so that users in China may access the website without any lag or delays. Revenue from JJ-Street.com is generated primarily from, among other things, advertisement fees, monthly fees for updating the advertisements and fees for transmitting data to JJ-Street.com's Beijing server.

### **Market Research**

In 2009, we established iResearch Japan as the Japanese distribution channel for iResearch Consulting Group (上海艾瑞市場諮詢有限公司), a company incorporated in the PRC providing research services focusing on China's internet industry. We own a 65.4% interest in iResearch Japan, and Topstart, a company incorporated under the laws of the British Virgin Islands and owned by Mr. Yang Weiqing, an Independent Third Party and one of the founders of iResearch Consulting Group, owns the remaining 34.6% interest. iResearch Japan provides online research regarding the e-commerce industry in China to Japanese corporations. iResearch Japan also provides marketing services and consultation services relating to trademark rights in China.

### **Cross-Border Consumer Center Japan**

In 2011, the Consumer Affairs Agency of Japan commissioned us to establish the Cross-Border Consumer Center Japan (CCJ) for handling enquiries and complaints from Japanese consumers arising from cross-border consumer transactions entered into on the internet or during travel. CCJ also provides assistance to Japanese consumers for dealing with affiliated consumer associations of certain nations. CCJ is currently affiliated with the Council of Better Business Bureaus of the USA and Canada, the Consumers Association of Singapore and the Secure Online Shopping Association of Taiwan.

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### Sales and Business Development

Our sales divisions, which include ECONTEXT's sales and partner relations divisions and VeriTrans' sales and marketing divisions, are focused on online merchants, financial institutions and convenience stores in Japan. VeriTrans' global strategy division has regional coverage responsibilities in Southeast Asia.

Typically, each sales division includes a general manager, a manager or assistant manager, business development personnel and customer service representatives. The sales divisions are supported by client services and technology development teams to deliver products and services that meet the needs of our diverse customer base.

Our business development divisions, which include ECONTEXT's solution planning division and VeriTrans' business development division, are responsible for product and account management. Our product management group analyzes and identifies product and technology trends in the marketplace and works closely with our technology development group to develop new products and future enhancements.

As of July 1, 2013, we had 44 sales and business development employees. The following table shows a breakdown of our sales and business development divisions as of July 1, 2013:

<u>Division</u>	<u>Number of Staff</u>
<b>ECONTEXT</b>	
ECONTEXT sales division .....	12
Partner relations division .....	2
Solution planning division .....	5
<b>VeriTrans</b>	
Marketing division .....	7
Sales division .....	6
Business development division .....	8
Global strategy division .....	4
<b>Total</b> .....	<b>44</b>

### Customer Service and Operations

As of July 1, 2013, our customer service and operations team consisted of 20 employees. Our customer service representatives provide phone and email support to our customers.

In addition to the customer service functions, our operations team has built expertise in payments industry rules and best practices in Visa, MasterCard, American Express, Pay-easy, PayPal and China UnionPay processing.

The following table shows a breakdown of our Operations divisions as of July 1, 2013:

<u>Division</u>	<u>Number of Staff</u>
<b>ECONTEXT</b>	
Operations division .....	9
<b>VeriTrans</b>	
Operations division .....	11
<b>Total</b> .....	<b>20</b>

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## OUR BUSINESS

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### MAJOR CUSTOMERS AND SERVICE PROVIDERS

Our customer base consists of merchants of various industries with online operations, including, among others, mobile phone service providers, software publishers, electronics vendors, online gaming websites, insurance companies, online video and media stores, fashion, apparel and cosmetics vendors, finance companies, television stations and travel agents. As of June 30, 2013, we had 12,284 Active Merchant Websites. We do not have a single major customer. Our top five customers in aggregate accounted for less than 30% of our revenue for each of the three years ended June 30, 2011, 2012 and 2013. Our standard form service agreement has a term of one year and is automatically renewed each year unless the customer provides us notification of termination not less than three months from the end of the then-current one year period. We do not require our customers to meet any minimum sales requirements under our service agreements.

Our top five service providers, comprising credit card merchant acquirers and convenience store chains, in aggregate, accounted for approximately 54%, 54% and 53% of our cost of sales and our largest service provider accounted for approximately 27%, 18%, and 17% of our cost of sales in each of the three years ended June 30, 2011, 2012 and 2013, respectively.

None of our Directors, their associates or any of our current Shareholders (who to the knowledge of our Directors owns more than 5% of our share capital) has any interest in any of our top five customers or service providers which is required to be disclosed under the Listing Rules.

### VENDOR RELATIONSHIPS

#### Credit card merchant acquirers

The parties involved in a credit card transaction include a merchant, a consumer, a credit card association, a credit card issuer and a credit card merchant acquirer. A credit card association is an association of card-issuing banks (such as JCB, Visa, MasterCard and American Express) that set transaction terms for merchants, credit card issuers and credit card merchant acquirers. Credit card issuers include banks, credit unions and retailers that provide credit lines to consumers through payment cards. The credit card issuer is the party that issues statements to the consumer for repayment.

Credit card merchant acquirers are members of credit card associations. They are the banks that process credit card payments on behalf of a merchant. In the absence of an online payment service provider, such as us, the credit card merchant acquirer will enter into a contract with an online merchant to facilitate payments made using credit cards of the relevant credit card association. Under the terms of these agreements, the credit card merchant acquirer would typically receive funds from credit card issuers (which are paid by the consumer to the relevant credit card issuer) on behalf of the online merchant, and pay the online merchant periodically for the net balance of their payment card activity, net of credit card merchant acquirer fees. In the case where an online payment service provider is not involved, online merchants must enter into agreements directly with credit card merchant acquirers to handle transaction data processing, though we believe that many online merchants have chosen not to do so because of the capital expenditures involved with establishing and maintaining the necessary computer systems (including the security systems) for connecting to various credit card merchant acquirers. Where an online payment service provider such as us is involved, the credit card merchant acquirer will enter into agreements with the online payment service provider to facilitate the transfer of funds from the credit card merchant acquirer to the online payment service provider, who will then transfer the funds (net of fees charged by the credit card merchant acquirer and the online payment service provider) periodically to the online merchant.

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We have entered into service agreements with credit card merchant acquirers, such as JCB, Mitsubishi UFJ Nicos and Sumitomo Mitsui Card, for credit card transaction processing services in connection with our online payment services. As of June 30, 2013, we have had business relationships with JCB, Mitsubishi UFJ Nicos and Sumitomo Mitsui Card for over five years. Under each service agreement, the credit card merchant acquirer will process properly presented card transactions and will transfer the funds from such transactions to us on a periodic basis. Our service agreements with credit card merchant acquirers typically have a term of one year and are automatically renewed each year unless either party provides prior notification of termination. The credit card merchant acquirers are required to maintain their membership with the relevant credit card associations. As of June 30, 2013, we maintained service agreements with 39 credit card merchant acquirers. We assume liability for all chargeback losses in the event that we are unable to collect this amount from the online merchant, due to the merchant's insolvency or other reasons. In the overwhelming majority of cases, this situation is unlikely to arise because most products or services are delivered when purchased, and credits are issued on returned items. However, where the product or service is not provided until sometime following the purchase (for example, airline or cruise ship tickets), we assume greater risk. In order to reduce the risk of chargeback losses, major credit card brands have implemented the 3-D Secure security feature. 3-D Secure is a credit card authentication security feature that requires the cardholder to enter a personal password when entering into online transactions. We have integrated 3-D Secure into our Merchant Development Kit and typically recommend our customers to use 3-D Secure as an additional security feature for transactions settled via credit card.

The credit card merchant acquirers are required to meet specified service levels regarding the availability, response times, security procedures, problem resolution and charge back processing. We pay each credit card merchant acquirer a fee for each credit card authorization.

### **Bank networks**

We have entered into service agreements with each bank that provides our online banking processing services. We pay each bank processing fees on a per transaction basis.

### **Convenience stores**

We have entered into service agreements with most of the key convenience store chains in Japan, such as 7-11, Lawson, FamilyMart and Seicomart, for payment acceptance and transaction processing services in connection with our online payment services. As of June 30, 2013, we have had business relationships with 7-11, Lawson, FamilyMart and Seicomart for over five years. For the 7-11 chain, which has its own established network infrastructure, we have adapted our system in order to connect to its network. For certain other convenience store chains, such as Lawson, FamilyMart and Seicomart, we have invested in certain of the equipment for setting up their respective payment networks, including the kiosk terminals, and operate our online payment services as a content provider.

Under each service agreement, the convenience store chain will accept payment and process properly presented transaction billing information from consumers and will periodically transfer the funds from such transactions to us on a periodic basis. Our agreements with convenience store chains typically have a term of one year and are automatically renewed each year unless either party provides prior notification of termination. The convenience store chains are required to meet specified service levels regarding availability, response times, security procedures and problem resolution. We pay each convenience store chain processing fees on a per transaction basis and certain convenience store chains an additional nominal monthly fee.

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### **China UnionPay**

In 2012, we entered into an agreement with China UnionPay Co., Ltd. to act as a credit card merchant acquirer and to procure switching, settlement and other services from China UnionPay Co., Ltd. in order to enable the use of China UnionPay cards for conducting online transactions in Japan through the UnionPay Online Payment Program internet payment service. China UnionPay is a credit card association that operates an inter-bank transaction settlement system facilitating the connection and switching between banking systems and the inter-bank, cross-region and cross-border usages of bank cards issued by China UnionPay's associate banks. The term of the agreement with China UnionPay is three years and is automatically renewed for successive one year periods unless either party provides six months' prior written notice of termination. Under the terms of the agreement, we are required to pay China UnionPay per transaction service fees based on a percentage of the transaction amount. Under the terms of the agreement, we are also responsible for the one-time setup fee and recurring usage fees to connect to the UnionPay Online Payment Program system and interface. Under the terms of the agreement, we are required to abide by the China UnionPay regulations governing the use of China UnionPay's internet-based payment network and system.

We believe that our relationship with other credit card merchant acquirers will not be adversely affected by our agreement with China UnionPay. Our agreement with China UnionPay allows us to act as a credit card merchant acquirer only for online transactions. While there is potential competition between us and other credit card merchant acquirers, in order for credit card merchant acquirers to provide online payment services, they will need to establish the necessary computer systems and infrastructure for connecting their payment systems to the internet. We believe that many credit card merchant acquirers have chosen not to do so themselves because of the capital expenditures involved with establishing, maintaining and upgrading the necessary computer systems (including security systems) for providing such services, and instead prefer to use online payment service providers such as us to act as an intermediary to provide such services for convenience and cost efficiency. See the section headed "Our Business—Competition" in this prospectus. Also, as we are in the business of providing online payment services and not of credit card merchant acquiring, we do not intend to enter into licensing agreements with other credit card associations to act as a credit card merchant acquirer. Given that China UnionPay is the sole domestic card association in China with its own credit and debit card network, our relationship with China UnionPay is focused on allowing us to process data for online transactions and provide agency payment services for online merchants for transactions settled by payment using a China UnionPay card through the China UnionPay network, rather than the business of credit card merchant acquiring.

### **PayPal**

In, 2009, we entered into agreements with PayPal Pte. Ltd. to obtain a license for using the PayPal system in connection with our agency payment services. Under the terms of the agreements, PayPal Pte. Ltd. is required to pay us incentive payments for integrating the PayPal system with our online payment systems. Our agreements with PayPal Pte. Ltd. have a term of one year and are automatically renewed each year unless either party provides prior notification of termination. In addition to integrating the PayPal system, we are required to provide advertising space to PayPal Pte. Ltd. in accordance with the specifications provided by PayPal Pte. Ltd. We believe that PayPal has chosen to enter into an agreement with us to integrate the PayPal system with our online payment systems because of our online merchant customer base. We believe that online merchants prefer

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entering into service contracts with online payment service providers such as us because of the various payment options that we can provide, including settlement at convenience stores and by eMoney, in addition to the options provided by PayPal.

### **Mobile phone carriers**

We have entered into agreements with certain mobile phone carriers, such as au, Softbank and docomo, allowing consumers to settle online transactions by charging the amounts to their account with such mobile phone carriers. The maximum amount a consumer may charge on its mobile phone carrier's account is dependent on the contract between the consumer and its respective mobile phone carrier. Our agreements with mobile phone carriers typically have a term of one year and are automatically renewed each year unless either party provides prior notification of termination. Under the terms of these agreements, we are required to pay mobile phone carriers per transaction service fees based on a percentage of the transaction amount.

## **INFORMATION TECHNOLOGY**

### **Technology and Information Systems**

Our technology facilitates access to our website and servers to allow online merchants and their consumers to conduct financial transactions. We focus most of our development efforts on creating specialized software that enhances our payment settlement functionality. One of our key challenges remains building and maintaining a scalable and reliable system, capable of handling traffic and transactions for a growing customer base. The major components of our network are located at a remote data center and at our operations and customer support facility at our corporate headquarters in Tokyo, Japan.

Given the financial nature of our online payment and e-commerce products, we seek to offer a high level of data security in order to build customer confidence and to protect the private information of both our customers (i.e. online merchants) and consumers. We have designed our security infrastructure to protect data from unauthorized access, both physically and over the Internet. Our most sensitive data and hardware reside at our data center. This data center has redundant connections to the internet, or a connection to the internet backed up by secondary resources, as well as fault-tolerant power and fire suppression systems. Given our special security needs, we house our equipment in physically secure data vaults and tightly control physical access to our systems. VeriTrans and ECONTEXT were granted in June 2012 and January 2013, respectively, the right by JIPDEC to use "PrivacyMark" in the course of business. PrivacyMark is a system set up to assess private enterprises that take appropriate measures to protect personal information.

Multiple layers of network security and network intrusion detection devices further enhance the security of our systems. We segment various components of the system logically and physically from each other on our networks. Components of the system communicate with each other via Secure Sockets Layer, or SSL, an industry standard communications security protocol, and require mutual authentication. Access to a system component requires at least two authorized staff members simultaneously to enter secret passphrases. This procedure protects us from the unauthorized use of our infrastructure components. Finally, we store all data in encrypted form in our database. We decrypt data only on an as-needed basis, using a specially designated component of our system which requires authentication before fulfilling a decryption request. Although we have taken steps to protect against data loss and system failures, there is still a risk that we may lose critical data or experience system



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failures. See the section headed “Risk Factors—Risks Relating to Our Business—We may experience breakdowns in our information technology systems that could damage customer relations and expose us to liability” of this prospectus.

### **Information Technology Risk Management**

Our information technology risk management techniques are designed to detect and prevent fraud when consumers enter details of their credit card, bank account or other online payment account details into our system. Our systems have been exposed to attacks from computer hackers during the Track Record Period. See the section headed “Risk Factors—Risks Relating to Our Business—Material breaches in security of our information technology systems may subject us to liability” of this prospectus. Due to the continual upgrading of our security systems and efforts to monitor information security breaches, we did not experience any financial or operational losses as a result of hacker attacks during the Track Record Period.

Our risk management techniques include the following:

- *Card evaluation.* We became PCI Data Security Standards (PCI DSS) version 1.0 compliant in 2005. PCI DSS is a set of data security standards and technical requirements initially developed by American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa Inc. in December 2004. These five credit card associations subsequently launched an open global forum, the PCI Security Standards Council, in 2006 to develop, manage, educate and promote awareness of the PCI Security Standards, including PCI DSS, Payment Application Data Security Standard (PA-DSS) and PIN Transaction Security (PTS) requirements. We have implemented PCI DSS version 2.0 compliant procedures, including quarterly security testing of our systems, and deploy rigorous anti-fraud screens for every credit card transaction we process. We use a combination of internally developed and third party software.
- *Experience.* We believe our experience and cumulative knowledge in dealing with attempted fraud perpetrators represents an additional anti-fraud advantage.
- *Data backup and recovery.* We maintain a dual backup system, with one backup system located at our main data center in Tokyo and one located remotely in a secret location in of Japan for security purposes. In the event of a system failure at our main servers, we may immediately reroute or retrieve data from one of our two backup systems. Our internal systems maintenance policies require us to design our systems with a certain amount of redundancy in order to handle emergency situations. Our internal risk management policies also require us to notify merchants in the case of any system failures. Our agreements with online merchants also require the merchants to waive all liabilities and damages arising from system failures. Although we attempt to limit our potential liability for warranty claims through disclaimers in our software documentation and limitation of liability provisions in our license and customer agreements, we cannot assure you that these measures will be successful in limiting our liability. See the section headed “Risk Factors—Risks Relating to Our Business—We may experience software defects, computer viruses and development delays, which could damage customer relations, decrease our potential profitability and expose us to liability” of this prospectus. During the Track Record Period, we have not experienced any system failures or any material disruptions arising from system failures.

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### RISK MANAGEMENT

#### **Our Internal Risk Management**

The internal audit offices of VeriTrans and ECONTEXT, headed by Mr. Tomoaki Yai and Mr. Ken Yamaya, respectively, are responsible for reviewing and monitoring the effectiveness of internal control measures, conducting internal audits for each division and reporting to the relevant entity's management, typically directly to the CEO or COO of the relevant entity. The CEO or management of the relevant entity then directs each applicable division to take appropriate measures to remedy the identified issues or risks.

Risks of the Group pertaining to a specific division are also monitored by the relevant division. Division managers of each division are responsible for implementing and monitoring internal control measures for their respective division and for notifying the relevant entity's management team of any internal controls issues or risks that arise. When a staff member becomes aware of any potential risks, such staff member is required to report to his or her immediate supervisor or the division manager. In case of emergencies requiring immediate executive decision, such staff member may report directly to any of the management members of the Group, normally CEO, CTO, CFO or any executive officer of VeriTrans and ECONTEXT.

*Mr. Tomoaki Yai* joined VeriTrans as manager of Corporate Strategy Office in 2008. He has held the position of head of internal audit office of VeriTrans since 2009.

*Mr. Ken Yamaya* joined Digital Garage as senior manager of Office of the Group CEO in 2007. He has held the position of general manager of internal audit office of ECONTEXT since 2013.

#### **Credit Risk Management**

##### *Screening of new customers*

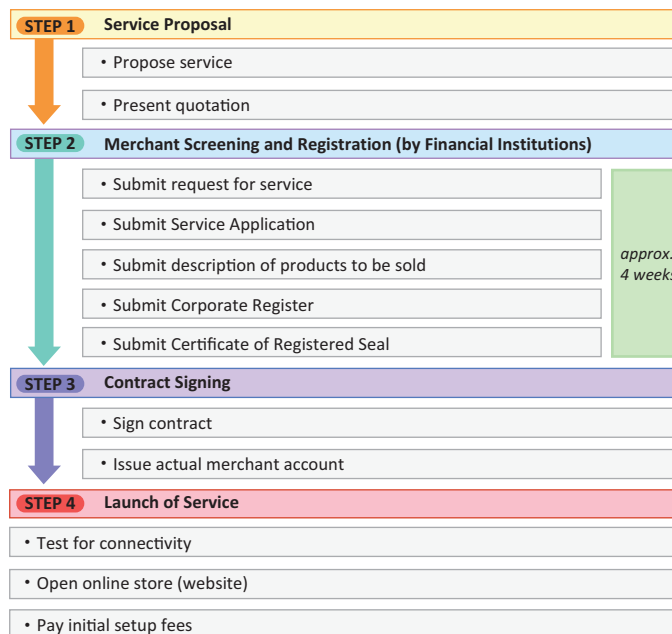
To manage credit risks, we have implemented credit management rules. As part of our customer intake process, we assess the creditworthiness of the online merchant.

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The following is an illustration showing the process for acquiring new customers for our online payment services:



Our risk management process enables us to screen new merchants prior to entering into service agreements. Once a merchant has submitted an application to subscribe to our services, we consult third party research institutions to assess the merchant's creditworthiness. Once we receive an initial assessment from the third party research institutions, we submit applications for the merchant to the relevant financial institutions depending on the settlement options that the merchant would like to use. We will enter into a service agreement with an online merchant only upon receiving approval from the relevant financial institutions. Such credit limit is determined by each of the relevant credit screening offices of VeriTrans and ECONTEXT, which are overseen by the respective Internal Audit offices, and ultimately, the CFO of the Company. Prior to the expiry of the relevant credit limit period, we re-evaluate the creditworthiness of the online merchant and adjust the credit limits accordingly. For existing customers, the credit limit is subject to periodic review based on the online merchant's track record.

### *Monitoring of credit risks for advance payments*

Our Operations divisions manage our credit risks in connection with advance payments that we make to online merchants by monitoring and reviewing the amount of credit extended to online merchant customers at the time for determining the amount to be transferred to an online merchant during each funds transfer cycle. When an advance payment amount for a particular merchant goes over the initially set credit limit, which is detected during the course of preparing the funds transfer to the merchant's account, the relevant Operations division manager is notified of such activity, who then temporarily suspends such online merchant's account and reviews the online merchant's historical activities as well as creditworthiness to determine whether or not to increase the credit limit and allow such transfer to be initiated. If the amount over the set credit limit is exceptionally higher than normal, such account will be subject to further investigation. In the case where payment to online merchants is made in advance but the funds for such payment are not recovered for nonpayment by the relevant financial institution, we have the right to terminate contract with such merchant. However, we typically

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discuss and try to resolve any credit issues with our customers prior to terminating a contract. In the case where we cannot recover the amount from credit card merchant acquirers for advance payments, our payment processing receivables will increase. See the section headed “Risk Factors—Risks Relating to Our Business—Any significant impairment of payment processing receivables may adversely affect our cash flow and working capital, financial condition and results of operations” During the Track Record Period, we did not experience any issues with recovering amounts made as advance payment to online merchants from credit card merchant acquirers.

Our Operations divisions are responsible for overseeing the account activity and credit profile of online merchants.

### ***Merchant Monitoring***

We also have risk management policies requiring us to make inquiries to merchants if we observe irregular activity, for example, if there are transactions involving amounts that exceed the merchant’s normal transactions. Our service contracts also include provisions prohibiting online merchants from using our services for carrying on money laundering activities and engaging in activities such as funding terrorist organizations. Our Operations divisions monitor the activities and transactions of merchants on a daily basis and our management team reviews transaction records on a monthly basis.

### ***Funds Handling***

We have implemented risk management policies requiring us to keep funds received from convenience store chains and financial institutions, which represent the amounts recorded under payment processing payables, in an account separate from the account we use for funds transfer, which is also separate from accounts we use for our general corporate purposes. Our policy of maintaining separate accounts for payment processing payables and funds transfers allows us to keep accurate records of incoming and outgoing amounts and to ensure that we have sufficient funds for our agency payment services. At the end of each billing cycle, we transfer the amount to be paid to the relevant online merchants in such accounts to the funds transfer account to initiate the transfer of such amounts to the relevant online merchants. We also transfer the fees to be paid to us to the accounts we use for our general corporate purposes and record such amounts as income. See the section headed “Financial Information—Payment Processing Receivables and Payables Analysis” in this prospectus.

Our Operations divisions compile funds transfer data based on the information collected during settlement data processing. Our Operations divisions then pass this information to the relevant Administration division, who will then upload the funds transfer data to our web banking system. A manager or senior staff in the relevant accounting section then confirms the funds transfer data and seeks the approval of a chief officer such as the CEO or the CFO for initiating the actual funds transfer. Our Administration divisions review and monitor the journal recording the balances of payment processing payables and the amounts in the funds transfer account. In the case where online merchants request for an advance payment, the Administration divisions will record such amount as an overdraft in the journal for the funds transfer account.

Ms. Ai Matsushita and Mr. Eichi Abe are the Operations division managers for VeriTrans and ECONTEXT, respectively, who are responsible for monitoring the activities of our Operations divisions.

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### Information Technology Risk Management

To manage information technology risks, we have established internal information technology security policies for the Technical divisions of VeriTrans and ECONTEXT. Our Technical divisions are responsible for monitoring security of our information technology systems. Disclosure or transfer of any personal information, except by the person's explicit approval, is prohibited by laws and regulations. See the section headed "Our Business—Legal and Regulatory Matters—Overview of Applicable Laws and Regulations in Japan—Personal Information Protection Act" in this prospectus. During the Track Record Period, we were in strict compliance with the relevant laws and regulations relating to the protection of personal information.

We keep customer information secured and behind firewalls. Our information technology security policies also restrict the use of USB devices and require us to maintain an email surveillance system to prevent any leakage of customer information. In addition, our information technology security policies restrict access to credit card and other account related information only to a small number of authorized persons. Our Technical division is responsible for monitoring and managing the access rights to such information and the classification of information subject to such restrictions. In addition, the Technical division periodically reviews and monitors access records for any extraordinary cases of access to such information. Our information technology security policies also require all employees including those authorized persons to change their password periodically.

VeriTrans also entered into an agreement on July 1, 2012 with SBI Business Solutions Co., Ltd., a subsidiary of SBI Holdings, for the provision of management outsourcing and management system services from SBI Business Solutions Co., Ltd. comprising, among other things, books and accounts management and filing services, cashflow and payment services, and access to the computer systems required for carrying out management outsourcing services and other administrative services. See the section headed "Connected Transactions—Exempt Continuing Connected Transactions—1. Agreements for payment services and management outsourcing and management system" in this prospectus. We routinely monitor the information flow between VeriTrans and SBI Business Solutions Co., Ltd. to ensure compliance with our information technology security policies.

Our Personal Information Protection Management Systems Committees are in charge of monitoring and managing our information technology security risks. Mr. Kohei Akao, CTO of VeriTrans, and Mr. Ken Yamaya, Head of Internal Audit Office are chairmen of the committees of respective entities.

### COMPETITION

Our principal competitors in the market for online payment systems and services are GMO Payment Gateway Inc. and Softbank Payment Service. GMO Payment Gateway Inc. and Softbank Payment Service provide the same types of services as we do and are our direct competitors. GMO Payment Gateway Inc. focuses on providing online payment services for municipalities and public utilities while one of Softbank Payment Service's main revenue streams is from providing online payment services in connection with Yahoo! Auction and Yahoo! Shopping in Japan.

We believe competition is based on a number of factors, including customer service, complaint handling, pricing and marketing methods. We believe the key strengths of our online payment services and e-commerce business are (i) our trusted brand name, (ii) an expansive network which allows online merchants to reach a wider consumer base, (iii) our ability to leverage the use of the internet and the

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support of websites of our other Group companies which complements our business as an effective sales channel, (iv) our high quality customer service driven by our customer-centric principles and (v) our add-on applications and advanced product features, advanced communications modularity, reliability and low total cost of ownership.

There is also potential competition between us and our suppliers, in particular credit card merchant acquirers. In order for financial institutions and convenience store chains to provide online payment services, they will need to establish the necessary computer systems and infrastructure for connecting their payment systems to the internet. We believe that many financial institutions and convenience store chains have chosen not to do so themselves because of the capital expenditures involved with establishing, maintaining and upgrading the necessary computer systems (including security systems) for providing such services, and instead prefer to use online payment service providers such as us to act as an intermediary to provide such services for convenience and cost efficiency. Also, the risk of credit card merchant acquirers, who are in the business of acquiring transactions from online merchants in order to charge processing fees, terminating their relationships with us in order to sell their services to online merchants independently is mitigated by the fact that online merchants prefer having more payment options available to their business rather than limiting themselves to a single credit card payment processor. Credit card merchant acquirers are only capable of providing transaction data processing and agency payment services for credit card settled transactions while we offer a variety of options for settlement. If a credit card merchant acquirer terminates its relationship with us, it will potentially lose the relationship with the online merchant customers that we serve. We, on the other hand, will still be able to process credit card transactions so long as there are other credit card merchant acquirers linked with the relevant credit card issuers and brands. However, if any of the credit card merchant acquirers with which we have a strategic alliance terminates its relationship with us, our continued growth may be affected and this may result in a negative impact to our business and a reduction in our revenue and profit. See the section headed “Risk Factors—Risks Relating to Our Business—We depend on our online merchant relationships and strategic alliances to grow our business. If we are unable to maintain these relationships and alliances, our business may be adversely affected” in this prospectus.

We expect competition in our industry will be largely driven by the requirements to respond to increasingly complex technology, industry certifications and security standards.

### INTELLECTUAL PROPERTY

We rely primarily on copyrights, trademarks and trade secret laws to establish and maintain our proprietary rights in our technology and products.

As of June 30, 2013, we had registered 34 trademarks in Japan and China, two patents in Japan and 20 active domain names. We also have pending applications for 14 trademarks in China, Hong Kong and Indonesia. In addition, we had also applied for a patent in relation to our IVR system.

As of June 30, 2013, we had been licensed by Digital Garage with the rights to use seven trademarks and three domain names. See the section headed “Connected Transactions” in this prospectus.

We have not had a consistent practice of registering copyrights in our software and other written works. Instead, we have relied upon customer license agreements and other forms of protection. We use non-disclosure agreements and license agreements to protect software and other written materials as copyrighted and/or trade secrets.



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Details of our intellectual property rights are more particularly set out in the section headed “Appendix V—Statutory and General Information—C. Further information about our business—Intellectual Property Rights” in this prospectus.

### TECHNOLOGY DEVELOPMENT

We work with our customers to develop online payment and e-commerce solutions that address existing and anticipated end-user needs. Our main technology development center is located at our corporate headquarters in Tokyo, Japan. Following the acquisition of VeriTrans, we have begun to focus development of our online payment service system at VeriTrans and our convenience store interface system at ECONTEXT. While development costs are expected to continue to increase over the next few years as online merchant customers of ECONTEXT continue to migrate to VeriTrans, we believe that unifying development of our online payment services system for serving online merchants at VeriTrans, coupled with VeriTrans’ existing know-how and experience, will allow new services and products to be developed quicker and more efficiently.

We jointly operate technology development teams with our joint venture partners in Indonesia, where regional expertise can be leveraged for the joint venture operations in the respective local markets. These regional development teams provide customization and adaptation to meet the needs of customers in local markets. In order to maintain our position as one of the industry’s technology innovators, we believe it is important to manage our technology development capability effectively in order to successfully implement our strategy. Therefore, we may enter into joint technology development agreements with third parties for the development of specific technologies or for adapting our technologies to local markets.

Our technology development goals include:

- developing new solutions, technologies and applications;
- developing enhancements to existing technologies and applications; and
- ensuring compatibility and interoperability between our solutions and those of third parties, such as financial institutions and convenience store networks.

Our technology development expenses, which were recorded as capital expenditures for software development, were HK\$6.6 million, HK\$15.6 million and HK\$49.0 million for the years ended June 30, 2011, 2012 and 2013, respectively. As of July 1, 2013, we had 28 technology development employees representing 20.8% of our total employees.

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### EMPLOYEES

The following table provides information about our employees by each business segment as of July 1, 2013:

<u>Division</u>	<u>Number of Staff</u>
<b>ECONTEXT</b>	
ECONTEXT sales division .....	12
Partner relations division .....	2
Solution planning division .....	5
Operations division .....	9
Systems division .....	18
Corporate administration division .....	6
Others .....	2
<b>VeriTrans</b>	
Marketing division .....	7
Sales division .....	6
Business development division .....	8
Global strategy division .....	4
Technical division .....	10
Operations division .....	11
Corporate administration division .....	8
Legal division .....	3
Others .....	1
<b>Other subsidiaries</b> .....	<b>36</b>
<b>Total</b> .....	<b>148</b>

We strive to continuously maintain good working relations with our employees. We believe that our management policies, working environment and the employee development opportunities and benefits extended to employees have contributed to building good employee relations. Our employees do not belong to a labor union.

Since the acquisition of VeriTrans, we have not dismissed any employees due to the integration. Rather, we have retained the existing staff of both VeriTrans and ECONTEXT and have reallocated employees from ECONTEXT to VeriTrans to complement the change in focus of the operations of ECONTEXT and VeriTrans.

We provide employees with training on the rules, regulations and policies with respect to personal information and data privacy upon joining the Company and refresher courses on a regular basis. In addition, upon joining the Company, employees are required to undergo training in relation to insider trading.

### INSURANCE

We maintain liability insurance for information technology, personal data leakage and network related claims. We also maintain comprehensive insurance for our computer equipment, insurance against fire damage for our offices and data centers and general liability insurance against third party claims and property damage. Each such policy has customary exclusions. See the section headed “Risk Factors—Risks Relating to Our Business—Our insurance coverage may not be adequate to cover all possible operational losses that we could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future” in this prospectus.

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We believe that our insurance coverage is consistent with industry and regional practice and is adequate for our business operations. From time to time, we review and assess our risks and adjust our insurance coverage as appropriate.

### PROPERTIES

We currently sub-lease approximately 1,474 square meters of office space in Tokyo from Digital Garage, where all of our employees and operation are located. As of the Latest Practicable Date, we did not own any properties. Accordingly, the Directors confirm that no single property interest which forms part of our non-property activities has a carrying amount (within the meaning of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong) (the “**Exemption Notice**”) and Chapter 5 of the Listing Rules) of 15% or more of our total assets.

In light of the above, pursuant to Section 6(2) of the Exemption Notice, this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report to be prepared in respect of all our interests in land or buildings. Pursuant to Chapter 5 of the Listing Rules, this prospectus is not required to include valuations of our properties.

### LEGAL AND REGULATORY MATTERS

#### Overview of Applicable Laws and Regulations in Japan

A summary of the laws and regulations in Japan that are material to our business and operations is set out below. Our Japanese legal advisors have advised us that there have been no developments in the laws and regulations applicable to the online payment services industry since the passing of the Funds Settlement Act and up to the Latest Practicable Date.

We actively monitor for changes in laws and regulations relevant to the online payment services industry, and through EC Payment Forum, an online payment services industry association, we regularly discuss the potential impact of any future laws and regulations that may have an impact on our industry with other industry participants.

#### *Funds Settlement Act*

Our operating subsidiaries in Japan are mainly engaged in providing online payment services. While our online payment services business is currently not regulated under the laws of Japan, the Japanese Government passed the Funds Settlement Act (Law No. 59 of 2009, as amended), which became effective on April 1, 2010 and regulates certain types of settlement service businesses in Japan. Specifically, the Funds Settlement Act regulates among other things, providers of funds settlement services that require consumers to deposit funds with the service providers as a prerequisite for using their services for settling online transactions. The main purpose of the Funds Settlement Act is to protect consumers who have deposited funds from the risk of bankruptcy of their service provider. We do not receive any deposit or prepayment from customers in connection with our online payment services business (other than CASH POST) and therefore, the online payment services we offer (other than CASH POST) do not fall within the scope of the type of settlement services governed by the Funds Settlement Act. See the section headed “Risk Factors—Risks Relating to Business Operations in Japan—Our online payment services business is currently not regulated in Japan and may become regulated in the future” in this prospectus. The Consumer Affairs Agency of Japan launched a

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“settlement agency registry system” at <http://www.caa.go.jp/kessaidaikou/home.html> in July 2011 allowing online payment service providers handling credit card transactions to provide information about their company to the public. The registry system is not mandatory and online payment service providers may provide their information to this registry system on a voluntary basis. Both ECONTEXT and VeriTrans have registered with the registry system. Our CASH POST business, which enables merchants to send funds (including refunds due to cancellation or return of goods) to consumers by way of email, is governed by the Funds Settlement Act. We are duly registered in accordance with the Funds Settlement Act to engage in the CASH POST business.

The Funds Settlement Act requires us to, among other things, set aside a certain amount of money, either by depositing or entrusting a cash reserve, or by concluding a guarantee contract with certain financial institutions. Furthermore, we are required by the Funds Settlement Act to maintain secure control of confidential information with respect to, and proper supervision of our staff running, the CASH POST business.

### *Act for Prevention of Transfer of Criminal Proceeds*

Under the Act for Prevention of Transfer of Criminal Proceeds (Law No. 22 of 2007, as amended) (the “**Anti Money-laundering Act**”), banks and other financial institutions are required to report to the relevant governmental authorities (such as the Commissioner of the Financial Services Agency of Japan) if, in the course of their business, they receive assets or funds which they suspect to be illicit profits from criminal activity. Except for our CASH POST business as described below, we are not subject to the Anti Money-laundering Act as we are not a bank or financial institution. However, since we provide settlement data processing services and act as an intermediary between merchants and Japanese credit card merchant acquirers, who are subject to the Anti Money-laundering Act, financial institutions expect us to use reasonable efforts to assist them to maintain compliance with the Anti-Money Laundering Act. While failure to provide assistance would not result in any penalty being imposed on us, it could affect our reputation within the industry and result in the loss of potential suppliers and business prospects.

Our CASH POST business is registered under the Funds Settlement Act and therefore, the Anti Money-Laundering Act applies to this business. If we breach the Anti Money-Laundering Act in connection with our CASH POST business, the relevant government agency may request us to submit a report or materials for investigation and may conduct an audit of us or give us instructions or orders for remediation. If we breach such orders or instructions issued by the government agency, our Directors or members of our senior management responsible for ensuring compliance with the Anti Money-laundering Act may be liable for up to two years of imprisonment or a fine of up to ¥3 million and our Company may be liable to a fine of not more than ¥300 million. During the Track Record Period, we were in compliance with the Anti Money-Laundering Act in all respects.

### *Personal Information Protection Act*

The Personal Information Protection Act became effective on April 1, 2005. The Personal Information Protection Act requires, among other things, a Japanese business operator who comes into possession of personal information to limit the use of personal information to the purpose communicated to the owner of the personal information at collection and to properly retain such personal information. The Personal Information Protection Act also forbids a business operator from providing personal information to third parties without consent of the owner of the personal information.

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As part of our online payment services business, we collect and maintain databases of sensitive information about online merchants and consumers, including names, email addresses, credit card numbers and bank account numbers. If we do not comply with the Personal Information Protection Act, a relevant government ministry may advise or order us to take remedial action. If we fail to comply with such governmental advice or order, we may be subject to criminal penalties, including a fine not exceeding ¥300,000.

### **Litigation, Claims and Arbitration**

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance nor, to the best of our knowledge, is any litigation, claim or arbitration of material importance pending or threatened against any member of the Group.

### **Compliance with Laws and Regulations**

We confirm that during the Track Record Period and up to the Latest Practicable Date, there were no material breaches or violations of the laws or regulations applicable to the Group that would have a material adverse effect on our business or financial condition taken as a whole. During the Track Record Period and up to the Latest Practicable Date, we had obtained all material licenses and permits necessary for the operation of our business in the jurisdictions in which we operate.

### **Overview of Applicable Laws and Regulations in the PRC**

A summary of the laws and regulations in the PRC that are material to our investments in the PRC and our rights to receive dividends and other distributions from such investments is set out below.

#### ***Software Protection Regulations***

The State Council of the PRC (the “**State Council**”) promulgated the Regulations on the Protection of Computer Software (the “**Software Protection Regulations**”) on December 20, 2001, which became effective on January 1, 2002 and were subsequently amended in 2013. The Software Protection Regulations were promulgated, among other things, to protect the copyright of computer software in the PRC. According to the Software Protection Regulations, the copyright of computer software that is independently developed and exists in a physical form or is attached to physical goods is protected by the Software Protection Regulations. However, the regulations do not apply to any ideas, mathematical concepts, processing and operation methods used in the development of software products.

Under the Software Protection Regulations, PRC citizens, legal persons and organizations are entitled to copyright protection for computer software that they have developed, regardless of whether the software has been published. In addition, foreigners or any persons without nationality are entitled to copyright protection for computer software that they have developed if such computer software was first distributed in the PRC.

Owners of software copyright enjoy the rights of publication, authorship, modification, duplication, issuance, lease, transmission on the information network, translation, licensing and transfer. Pursuant to the regulations, software copyright comes into existence on the day of completion

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of its development. In the case of software developed by legal persons and other organizations, the protection period is 50 years and ends on the thirty-first day of December of the fiftieth year from the date the software product was first published. However, the Software Protection Regulations will not afford protection to software if the software was never published during the 50 year period from the completion of development. A licensing contract is required in order to license others to use the software copyright, and if the terms of the licensing contract provide for an exclusive license, such licensing contract must be made in written form. A transfer or assignment of software copyright must be made by way of a written contract.

Civil liabilities available under the Software Protection Regulations against infringements of copyright include, among other things, an order for the cessation of the infringement, an order for an apology and compensation for losses. The administrative department of copyright also has the power to order the infringing party to cease the acts of infringement, confiscate illegal gains, confiscate and destroy infringing copies, and impose fines on the offender under certain circumstances.

### *Software Copyright Registration*

On February 20, 2002, the State Copyright Administration of the PRC promulgated and enforced the Measures Concerning Registration of Computer Software Copyright Procedures ( the “**Registration Procedures**”) to implement the Software Protection Regulations and to promote the development of the PRC’s software industry. The Registration Procedures apply to the registration of software copyrights and software copyright exclusive licensing contracts and copyright transfer or assignment contracts. The registrant of a software copyright will be either the copyright owner, or another person (which may be a natural person, legal person or an organization) in whom the software copyright becomes vested through succession, assignment or inheritance.

Pursuant to the Registration Procedures, the software to be registered must (i) have been independently developed or (ii) significantly improve in its function or performance after modification from the original software, with the permission of the original copyright owner. If the software being registered is developed by more than one person, the copyright owners may nominate one person to handle the copyright registration process on behalf of the other copyright owners. If the copyright owners fail to reach an agreement with respect to the registration, any of the copyright owners may apply for registration but the names of the other copyright owners must be recorded on the application.

The registrant of a software copyright and the parties to a software copyright transfer or assignment contract or exclusive licensing contract may apply to the Copyright Protection Center of the PRC (the “**CPC**”) for registration of such software copyright and contracts. The CPC will complete its examination of an accepted application within 60 days of the date of acceptance. If an application complies with the requirements of the Software Protection Regulations and the Registration Procedures, a registration will be granted, a corresponding registration certificate will be issued and the registration will be publicly announced.

### *Software Products Administration*

On March 5, 2009, the Ministry of Industry and Information Technology of the PRC (“**MII**”) promulgated the Measures Concerning Software Products Administration, which became effective on April 10, 2009. The Measures Concerning Software Products Administration provide that software products are subject to registration and filing requirements. Domestically-made software products that



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meet the requirements of the Measures Concerning Software Products Administration and that have undergone due registration and filing procedures may be entitled to the relevant incentive policies provided in the Certain Industry Policies Concerning Encouraging the Development of Software Industry and Integrated Circuit Industry. For the portion of an imported software product whose development and production is located within the PRC, the copyright holder and the original developer of the software is responsible for submitting the required materials for registration and filing according to the Measures Concerning Software Products Administration. Upon completion of the registration and filing procedures, the relevant portion of the software products are granted software product registration numbers and software product registration certificates, and the copyright holder and developer may be entitled to relevant incentive policies provided in the Certain Industry Policies Concerning Encouraging the Development of Software Industry and Integrated Circuits. The term of validity for software product registration is five years and may be renewed through application before the expiration of the term.

Software products made by a software producer are software products for which the producer owns the copyright or for which the producer has authorization by the copyright owner or other right owners to produce. Both software developers and software producers may engage in direct sales of software products that they develop or produce. The MII and other relevant departments may carry out supervision and inspection over the development, production, operation and import/export activities of software products in the PRC.

### *Tax*

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. In accordance with the PRC Income Tax Law that took effect on January 1, 2008 and the related implementing rules, foreign invested enterprises incorporated in the PRC are generally subject to an enterprise income tax rate of 25%. Pursuant to the Interim Regulation of the PRC on Business Tax that took effect on January 1, 2009, PRC enterprises engaged in the services industry are also subject to PRC business tax at a rate of 5% for their revenue derived from providing services. Pursuant to the Notice on the Pilot Tax Policy for Carrying out the Change from Business Tax to Value-added Tax in the Transportation Industry and Certain Modern Service Industry across the Country promulgated by the Ministry of Finance and the State Administration of Taxation on May 24, 2013, which took effect on August 1, 2013, PRC enterprises engaged in the provision of certain modern services as defined in the policy, which include information technology services but exclude tangible assets rental services, is subject to value-added tax at a rate of 6% (or a 3% leviable rate in the case of small scale taxpayers) in lieu of PRC business tax.

### *Foreign Currency Exchange*

Foreign currency exchange in the PRC is primarily governed by the following regulations:

- Foreign Exchange Administration Rules (1996), as amended; and
- Regulations of Settlement, Sale and Payment of Foreign Exchange (1996).

According to these regulations, the Renminbi is convertible for current account items, including distribution of dividends, payment of interest, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, securities

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investment and repatriation of investment, however, is still subject to the approval of the State Administration of Foreign Exchange (“SAFE”) or its local counterpart. Foreign-invested enterprises may settle and buy foreign currencies at those banks designated to conduct foreign exchange business after providing valid commercial documents and can also buy and sell foreign currencies at Foreign Currencies Adjusting Center. Capital investments by foreign-invested enterprises outside of the PRC are also subject to limitations, which include approvals by the MOFCOM, the SAFE and the National Development and Reform Commission.

### *Laws and Regulations Related to Agency Payment Services in the PRC*

While we do not, and currently have no plans to, engage in the provision of agency payment services in the PRC, a summary of the material laws and regulations relevant to conducting such business in the PRC is set out below. We have been advised by our PRC legal advisors that we are not subject to the relevant PRC laws and regulations concerning such activities.

The Measures for the Administration of Payment Services of Non-Financial Institutions (the “**Payment Services Measures**”) were promulgated on June 14, 2010 and took effect on September 1, 2010.

The Payment Services Measures and the implementing rules provide that a non-financial institution which intends to provide payment services, such as agency payment services, is required to obtain a permit in accordance with the Payment Services Measures and become a registered payment institution. Payment institutions are subject to the supervision and administration of the People’s Bank of China (the “PBOC”). Without the approval of the PBOC, no non-financial institution or individual is permitted to engage, whether directly or in a disguised form, in the provision of any payment services. Under the Payment Services Measures, an applicant is also required to have certain minimum amounts of registered capital depending on the regions served by the proposed payment services business.

The Payment Services Measures also provide that the business scope of foreign invested non-financial institutions and the shareholding percentage and qualification of foreign investors are subject to any further regulations that the PBOC may promulgate with the State Council’s approval. So far as our Directors are aware based on the advice of our PRC legal advisors, as of Latest Practicable Date, no such further regulations were promulgated by the PBOC with State Council’s approval.