



econtext Asia Limited 環亞智富有限公司

(Incorporated in Hong Kong with limited liability)
Stock Code: 1390



Interim Report 2014



Contents

Corporate Information	2
Financial Highlights	3
Management Discussion and Analysis	5
Interim Condensed Consolidated Income Statement	15
Interim Condensed Consolidated Statement of Comprehensive Income	16
Interim Condensed Consolidated Statement of Financial Position	17
Interim Condensed Consolidated Statement of Changes in Equity	19
Interim Condensed Consolidated Statement of Cash Flows	21
Notes to Interim Condensed Consolidated Financial Statements	22
Other Information	36

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Kaoru Hayashi (*Chairman*)

Takashi Okita (*Chief Executive Officer*)

Tomohiro Yamaguchi (*Chief Financial Officer*)

Keizo Odori

Non-Executive Directors

Joi Okada

Adam David Lindemann

Independent Non-Executive Directors

Mamoru Ozaki

Toshio Kinoshita

Takao Nakamura

AUDIT COMMITTEE

Toshio Kinoshita (*Chairman*)

Takao Nakamura

Adam David Lindemann

REMUNERATION COMMITTEE

Takao Nakamura (*Chairman*)

Kaoru Hayashi

Mamoru Ozaki

NOMINATION COMMITTEE

Kaoru Hayashi (*Chairman*)

Mamoru Ozaki

Takao Nakamura

COMPANY SECRETARY

Sau Mei Wong

REGISTERED OFFICE

Unit 607a, Level 6, Cyberport 3

100 Cyberport Road, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

INDEPENDENT AUDITORS

Ernst & Young

Certified Public Accountants

PRINCIPAL BANKER

Sumitomo Mitsui Banking Corporation

COMPLIANCE ADVISOR

Daiwa Capital Markets Hong Kong Limited

SHARE INFORMATION

Place of Listing

The Main Board of The Stock Exchange of
Hong Kong Limited

STOCK CODE

1390

WEBSITE

www.econtext.asia

INVESTOR RELATIONS

info@econtext.asia

Financial Highlights

The board of directors (the “Board”) of econtext Asia Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2013.

RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Six months ended 31 December			Change in HK\$ %	Six months ended 31 December			Change in JP¥ %
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)			2013 JP¥ (Unaudited) (Note 1)	2012 JP¥ (Unaudited) (Note 1)		
Revenue	531,203,276	606,828,728	-12.5	6,799,936,943	6,250,335,898	8.8		
Gross profit	132,977,462	167,440,565	-20.6	1,702,307,141	1,724,637,819	-1.3		
Initial public offering expenses	16,740,694	1,009,508	1,558.3	221,148,684	10,397,932	2,026.9		
Intellectual property license fees (Note 2)	11,421,361	7,749,546	47.4	146,213,756	79,820,324	83.2		
Operating profit	33,932,824	79,264,158	-57.2	424,129,732	816,420,827	-48.1		
Profit for the period	19,403,882	44,107,578	-56.0	238,892,892	454,308,052	-47.4		
Profit attributable to equity holders of the Company	20,432,863	45,235,038	-54.8	250,869,222	465,920,890	-46.2		
EBITDA	62,728,890	107,562,038	-41.7	791,991,202	1,107,888,991	-28.5		
Basic EPS (Note 3)	0.05	0.12	-58.3	0.65	1.24	-47.6		
Diluted EPS (Note 3)	0.05	0.12	-58.3	0.65	1.24	-47.6		
Average exchange rate (HK\$/JP¥) (Note 4)	12.86	10.30	-	-	-	-		

Note 1: The above table also includes amounts shown in Japanese yen for the purposes of illustration only, representing the relevant amounts prior to conversion into Hong Kong dollars for the purposes of the unaudited condensed consolidated financial statements.

Note 2: Pursuant to the intellectual property license agreements entered into with Digital Garage, Inc. (“Digital Garage”) on 28 September 2012 and 1 October 2012, respectively, the monthly license fee payable to Digital Garage by each of VeriTrans Inc. (“VeriTrans”) and ECONTEXT, Inc. (“ECONTEXT”) is 2.5% of their respective monthly revenue. However, Digital Garage and VeriTrans have agreed to amend their intellectual property license agreement to remove the obligation of VeriTrans to pay the monthly license fee after the initial public offering of the Company (the “IPO”). The intellectual property license fees for VeriTrans were HK\$6,634,434 (or JP¥84,643,481) and HK\$4,889,344 (or JP¥50,360,240) for the six months ended 31 December 2013 and 2012, respectively.

Note 3: The calculations of basic and diluted earnings per share are set out in “BASIC AND DILUTED EARNINGS PER SHARE” in note 9 to “Interim Condensed Consolidated Financial Statements” of this report.

Note 4: When translating financial results in Japanese yen to Hong Kong dollar, monthly average rate was applied to the financial results for each month.

Financial Highlights

OVERALL FINANCIAL PERFORMANCE

- During the six months ended 31 December 2013, the Group recorded a decrease in its revenue and gross profit on Hong Kong dollar basis, primarily due to the depreciation of Japanese yen. However, the Group recorded stable revenue and gross profit on Japanese yen basis, and continued to invest in new opportunities such as offline payment processing services and international expansion.
- The operating profit, profit for the period and profit attributable to equity holders of the Company reduced mainly due to the increase in the IPO expenses, intellectual property license fees, depreciation expense for the information data centre invested in April 2013 and employee benefit expenses (including directors' remuneration), and the depreciation of Japanese yen. The IPO expenses are non-recurring in nature.

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in online payment services, advertising related services and other e-commerce services in Japan. During the six months ended 31 December 2013, the Group derived revenue principally from fees for its online payment services, including initial setup and monthly fees, settlement data transaction fees and agency payment fees. The Group also derived revenue from service fees for advertising related services. The Group's revenue decreased by approximately 12.5% for the six months ended 31 December 2013 to approximately HK\$531.2 million from approximately HK\$606.8 million for the six months ended 31 December 2012, primarily due to the depreciation of Japanese yen.

Online payment services

The Group provides online payment services, which consist largely of agency payment services. Revenue from agency payment services for the six months ended 31 December 2013 was approximately HK\$444.3 million, representing approximately 83.6% of total revenue of the Group. The Group's agency payment services are provided primarily through ECONTEXT and VeriTrans, the Company's subsidiaries in Japan. For the six months ended 31 December 2013, the revenue from agency payment services of approximately HK\$444.3 million decreased by approximately 9.3% from approximately HK\$489.6 million for the six months ended 31 December 2012, primarily due to the depreciation of Japanese yen.

Advertising related services

The Group also provides advertising related services, including NaviPlus Recommend, a recommendation engine that optimises a website's content based on an analysis of data collected from users of a given website. Revenue from advertising related services for the six months ended 31 December 2013 was approximately HK\$24.9 million, representing approximately 4.7% of total revenue of the Group. Revenue from advertising related services decreased by 8.6% from approximately HK\$27.3 million for the six months ended 31 December 2012 to approximately HK\$24.9 million for the six months ended 31 December 2013 due to the depreciation of Japanese yen.

OUTLOOK

On 19 December 2013, the Company completed its IPO on the Main Board of The Stock Exchange of Hong Kong Limited (the "Global Offering"), which marked a milestone for the Group. The net proceeds from the Global Offering (before the full exercise of over-allotment option) were approximately HK\$383.4 million. The over-allotment option was exercised in full on 9 January 2014 with additional net proceeds of approximately HK\$64.9 million. Details of the exercise of the over-allotment option are set out in note 17 to "Interim Condensed Consolidated Financial Statements" of this report. The Group intends to expand both its domestic and international businesses by establishing a leading position in emerging, high growth and mature e-commerce markets throughout Asia, including Hong Kong and Mainland of China. The directors of the Company (the "Directors") believe that the listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will assist the Group in strengthening its presence in Asia, in particular Hong Kong and Mainland of China, and provide the Group with further capital for its expansion.

The Company's controlling shareholder, Digital Garage, is engaged in internet businesses including technology incubation, online marketing and online payment, the shares of which are listed and traded on the Japan Association of Securities Dealers Automated Quotation (the "JASDAQ") in Japan. Extensive network and excellent relationship with credit card companies are the Group's key competitive strength and it has been further enhanced by pre-IPO investments made by leading credit card merchant acquirers in Japan. Though majority of the Group's revenue is currently generated in Japan, the Group aims to become a leading pan-Asian online payment company in the years ahead. In this regard, in November 2013, the Company acquired 50% interest in VeriTrans Shanghai Co., Ltd. ("VeriTrans Shanghai") which offers 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, the Company also acquired a 15.59% interest in Citrus Payment Solutions Pte. Ltd. ("Citrus Singapore"), the holding company of Citrus Payment Solutions Private Limited ("Citrus India"), which offers 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.

Management Discussion and Analysis

The Group will continue to further strengthen market leadership in Japan by penetrating the small and medium enterprises market and leveraging on its pre-IPO investors' business networks on larger corporate, and expand in emerging markets in Asia through joint venture and/or mergers and acquisitions. The Group will also develop offline payment business both in Japan and Asia.

FINANCIAL REVIEW

Operating information

Revenue from the Group's online payment services primarily consists of agency payment fees. Agency payment fees relate to the services where the Group acts as an agent to transfer funds to the online merchant. Agency payment fees are generally affected by the transaction amount.

The following table sets forth certain operating statistics relating to the Group's online payment services for the periods presented:

	Six months ended 31 December 2013	Six months ended 31 December 2012
Number of data transactions	68,879,694	60,833,543
Active merchant websites	13,182	11,773
Agency payment amount (HK\$)	22,779,973,060	24,556,906,565
Agency payment amount (JP¥)	293,055,265,597	252,936,137,620

The following table shows a breakdown of the Group's agency payment fees, including the agency payment amount and average fee margin for the Group's online payment services for the periods presented:

	Six months ended 31 December 2013 HK\$	Six months ended 31 December 2012 HK\$
Agency payment fees = (a) x (b)	444,281,649	489,592,739
(a) Agency payment amount	22,779,973,060	24,556,906,565
(b) Average fee margin	2.0%	2.0%
All other revenue	86,921,627	117,235,989
Total revenue	531,203,276	606,828,728

Management Discussion and Analysis

The Group expects that the average fee margin for the agency payment services will remain stable. However, the Group expects that it will continue to be under pricing pressure. To offset the potential declining gross margins of the online payment services business, the Group intends to offer more value-added services, such as trAd, a transaction-linked advertisement platform offered by the Group.

Results of operations of the Group

The following table sets forth the unaudited comparative financial results in both Hong Kong dollar and Japanese yen for the periods presented:

	Six months ended 31 December		Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)	2013 JP¥ (Unaudited)	2012 JP¥ (Unaudited)
Revenue	531,203,276	606,828,728	6,799,936,943	6,250,335,898
Cost of sales	(398,225,814)	(439,388,163)	(5,097,629,802)	(4,525,698,079)
Gross profit	132,977,462	167,440,565	1,702,307,141	1,724,637,819
Selling, general and administrative expenses	(101,541,557)	(86,067,930)	(1,311,430,250)	(886,499,679)
Other operating income	2,515,995	1,519,569	38,362,231	15,651,561
Other operating expenses	(19,076)	(3,628,046)	(5,109,390)	(37,368,874)
Operating profit	33,932,824	79,264,158	424,129,732	816,420,827
Finance income	429,121	244,781	5,511,969	2,521,244
Finance costs	(582,640)	(452,746)	(7,495,035)	(4,663,284)
Share of after-tax income (loss) of an associate and a jointly-controlled entity	262,593	(313,126)	1,078,513	(3,225,198)
Profit before tax	34,041,898	78,743,067	423,225,179	811,053,589
Income tax expense	(14,638,016)	(34,635,489)	(184,332,287)	(356,745,537)
Profit for the period	19,403,882	44,107,578	238,892,892	454,308,052
Attributable to:				
Equity holders of the Company	20,432,863	45,235,038	250,869,222	465,920,890
Non-controlling interests	(1,028,981)	(1,127,460)	(11,976,330)	(11,612,838)
	19,403,882	44,107,578	238,892,892	454,308,052

Note: The above table also includes amounts shown in Japanese yen for the purposes of illustration only, representing the relevant amounts prior to conversion into Hong Kong dollars for the purposes of the unaudited condensed consolidated financial statements.

Management Discussion and Analysis

Revenue

Total revenue decreased by approximately 12.5%, from approximately HK\$606.8 million for the six months ended 31 December 2012 to approximately HK\$531.2 million for the six months ended 31 December 2013. The Group's total revenue represented in Japanese yen prior to conversion into Hong Kong dollars for the purposes of the Group's consolidated financial statements increased by approximately 8.8%, from approximately JP¥6,250.3 million for the six months ended 31 December 2012 to approximately JP¥6,799.9 million for the six months ended 31 December 2013. The Group's revenue in Japanese yen equivalent increased primarily as a result of a growth in the volume and amount of merchant transactions in Japan from the Group's agency payment business.

The following table sets forth the breakdown of the Group's revenue by category of services for the periods presented:

	Six months ended 31 December		Change in HK\$ %
	2013 HK\$	2012 HK\$	
Initial setup and monthly fees	20,457,196	25,143,435	-18.6
Settlement data transaction fees	27,524,370	38,745,972	-29.0
Agency payment fees	444,281,649	489,592,739	-9.3
Advertising related services	24,945,209	27,288,317	-8.6
Information security services	6,166,248	11,706,063	-47.3
Others	7,828,604	14,352,202	-45.5
	531,203,276	606,828,728	-12.5

	Six months ended 31 December		Change in JP¥ %
	2013 JP¥	2012 JP¥	
Initial setup and monthly fees	262,946,878	258,977,381	1.5
Settlement data transaction fees	353,859,831	399,083,512	-11.3
Agency payment fees	5,682,819,327	5,042,805,212	12.7
Advertising related services	320,441,546	281,069,665	14.0
Information security services	79,117,690	120,572,449	-34.4
Others	100,751,671	147,827,679	-31.8
	6,799,936,943	6,250,335,898	8.8

Note: The above table also includes amounts shown in Japanese yen for the purposes of illustration only, representing the relevant amounts prior to conversion into Hong Kong dollars for the purposes of the unaudited condensed consolidated financial statements.

Management Discussion and Analysis

Initial setup and monthly fees

Revenue from initial setup and monthly fees decreased by approximately 18.6%, or HK\$4.6 million, from approximately HK\$25.1 million for the six months ended 31 December 2012 to approximately HK\$20.5 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. The revenue from initial setup and monthly fees in Japanese yen equivalent increased by approximately 1.5%, or JP¥3.9 million, from approximately JP¥259.0 million for the six months ended 31 December 2012 to approximately JP¥262.9 million for the six months ended 31 December 2013, primarily due to an increase in the number of active merchant websites.

Settlement data transaction fees

Revenue from settlement data transaction fees decreased by approximately 29.0%, or HK\$11.2 million, from approximately HK\$38.7 million for the six months ended 31 December 2012 to approximately HK\$27.5 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. The revenue from settlement data transaction fees in Japanese yen equivalent decreased by approximately 11.3%, or JP¥45.2 million, from approximately JP¥399.1 million for the six months ended 31 December 2012 to approximately JP¥353.9 million for the six months ended 31 December 2013, primarily as a result of one-time revenue for the six months ended 31 December 2012.

Agency payment fees

Revenue from agency payment fees decreased by approximately 9.3%, or HK\$45.3 million, from approximately HK\$489.6 million for the six months ended 31 December 2012 to approximately HK\$444.3 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. The revenue from agency payment fees in Japanese yen equivalent increased by approximately 12.7%, or JP¥640.0 million, from approximately JP¥5,042.8 million for the six months ended 31 December 2012 to approximately JP¥5,682.8 million for the six months ended 31 December 2013, primarily as a result of a growth in the volume and amount of merchant transactions in Japan from the Group's agency payment business.

Advertising related services

Revenue from advertising related services decreased by approximately 8.6%, or HK\$2.4 million, from approximately HK\$27.3 million for the six months ended 31 December 2012 to approximately HK\$24.9 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. The revenue from advertising related services in Japanese yen equivalent increased by approximately 14.0%, or JP¥39.3 million, from JP¥281.1 million for the six months ended 31 December 2012 to approximately JP¥320.4 million for the six months ended 31 December 2013, primarily as a result of the acquisition of Kotohako Inc. ("Kotohako"). As the Group acquired 100% of the voting shares of Kotohako on 28 December 2012, the revenue derived from Kotohako for the six months ended 31 December 2013 has been fully consolidated in the results of the Group for the same period while the revenue for the six months ended 31 December 2012 was not.

Information security services

Revenue from information security services decreased by approximately 47.3%, or HK\$5.5 million, from approximately HK\$11.7 million for the six months ended 31 December 2012 to approximately HK\$6.2 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. The revenue from information security services in Japanese yen equivalent decreased by approximately 34.4%, or JP¥41.5 million, from approximately JP¥120.6 million for the six months ended 31 December 2012 to approximately JP¥79.1 million for the six months ended 31 December 2013, primarily due to a decrease in the number of SSL Certificate coupon packages sold.

Management Discussion and Analysis

Others

Other revenue decreased by approximately 45.5%, or HK\$6.6 million, from approximately HK\$14.4 million for the six months ended 31 December 2012 to approximately HK\$7.8 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. Other revenue in Japanese yen equivalent decreased by approximately 31.8%, or JP¥47.0 million, from approximately JP¥147.8 million for the six months ended 31 December 2012 to approximately JP¥100.8 million for the six months ended 31 December 2013. The decrease in other revenue in Japanese yen was mainly due to the fact that the Group generated revenue from contracted business with the Cross-Border Consumer Centre Japan for the six months ended 31 December 2012 while there was no such revenue for the six months ended 31 December 2013.

Cost of sales

Cost of sales decreased by approximately 9.4%, or HK\$41.2 million, from approximately HK\$439.4 million for the six months ended 31 December 2012 to approximately HK\$398.2 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. Cost of sales represented in Japanese yen prior to conversion into Hong Kong dollars for the purposes of the Group's consolidated financial statements increased by approximately 12.6%, or JP¥571.9 million, from approximately JP¥4,525.7 million for the six months ended 31 December 2012 to approximately JP¥5,097.6 million for the six months ended 31 December 2013 primarily due to an increase in depreciation expense for the information data centre invested in April 2013.

Gross profit

Gross profit decreased by approximately 20.6%, or HK\$34.4 million, from approximately HK\$167.4 million for the six months ended 31 December 2012 to approximately HK\$133.0 million for the six months ended 31 December 2013, primarily due to the depreciation of Japanese yen. Gross profit represented in Japanese yen prior to conversion into Hong Kong dollars for the purposes of the Group's consolidated financial statements decreased by approximately 1.3%, or JP¥22.3 million, from approximately JP¥1,724.6 million for the six months ended 31 December 2012 to approximately JP¥1,702.3 million for the six months ended 31 December 2013. Gross profit margin calculated based on the Group's gross profit and revenue decreased from 27.6% for the six months ended 31 December 2012 to 25.0% for the six months ended 31 December 2013, primarily due to the increase in costs of agency payment services.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by approximately 18.0%, or HK\$15.4 million, from approximately HK\$86.1 million for the six months ended 31 December 2012 to approximately HK\$101.5 million for the six months ended 31 December 2013. Selling, general and administrative expenses represented in Japanese yen prior to conversion into Hong Kong dollars for the purposes of the Group's consolidated financial statements increased by approximately 47.9%, or JP¥424.9 million, from approximately JP¥886.5 million for the six months ended 31 December 2012 to approximately JP¥1,311.4 million for the six months ended 31 December 2013, primarily due to the IPO expenses, intellectual property license fees as well as the increase in wages and salaries paid to the Group's employees as the Group continued to expand its business. The intellectual property license fees are charged by Digital Garage under intellectual property license agreements entered into with VeriTrans and ECONTEXT on 28 September 2012 and 1 October 2012, respectively (individually, the "IP License Agreement", collectively, the "IP License Agreements"). Pursuant to the IP License Agreements, the monthly license fee payable to Digital Garage by ECONTEXT and VeriTrans is 2.5% of their respective monthly revenue. However, Digital Garage and VeriTrans have agreed to amend the IP License Agreement to remove the obligation of VeriTrans to pay the monthly license fee immediately after the listing of the Company's shares on the Stock Exchange. The aggregate amount of the intellectual property license fees paid to Digital Garage for the six months ended 31 December 2013 was approximately HK\$11.4 million, which is equivalent to approximately 33.7% and 58.9% of the operating profit and profit of the Group for the same period of approximately HK\$33.9 million and HK\$19.4 million, respectively. Details of the transactions of ECONTEXT and VeriTrans are set out in "RELATED PARTY TRANSACTIONS" in note 16 to "Interim Condensed Consolidated Financial Statements" of this report.

Management Discussion and Analysis

Other operating income

Other operating income increased from approximately HK\$1.5 million for the six months ended 31 December 2012 to approximately HK\$2.5 million for the six months ended 31 December 2013, primarily due to foreign exchange gains.

Other operating expenses

Other operating expenses decreased from HK\$3,628,046 for the six months ended 31 December 2012 to HK\$19,076 for the six months ended 31 December 2013. The operating expenses for the six months ended 31 December 2012 was mainly attributable to foreign exchange losses.

Operating profit

Operating profit decreased by approximately 57.2%, or HK\$45.4 million, from approximately HK\$79.3 million for the six months ended 31 December 2012 to approximately HK\$33.9 million for the six months ended 31 December 2013, mainly due to the increase in the IPO expenses, intellectual property license fees, depreciation expense for the information data centre invested in April 2013 and employee benefit expenses (including directors' remuneration), and the depreciation of Japanese yen.

Finance income

Finance income increased by approximately 75.3%, or HK\$184,340, from HK\$244,781 for the six months ended 31 December 2012 to HK\$429,121 for the six months ended 31 December 2013, primarily due to a gain on sale of commercial bonds.

Finance costs

Finance costs increased by approximately 28.7%, or HK\$129,894, from HK\$452,746 for the six months ended 31 December 2012 to HK\$582,640 for the six months ended 31 December 2013, primarily due to an increase in interest on bank loans.

Share of after-tax income (loss) of an associate and a jointly-controlled entity

Share of after-tax income (loss) of an associate and a jointly-controlled entity accounted for using equity method increased from loss of HK\$313,126 for the six months ended 31 December 2012 to income of HK\$262,593 for the six months ended 31 December 2013, primarily attributable to the proportional share of income from PT. Midtrans, a company incorporated under the laws of Republic of Indonesia in which the Company owns a 23% interest.

Income tax expense

Income tax expense decreased by approximately 57.7%, or HK\$20.0 million, from approximately HK\$34.6 million for the six months ended 31 December 2012 to approximately HK\$14.6 million for the six months ended 31 December 2013. This decrease was primarily due to the decrease in profit before tax.

Profit for the six months ended 31 December 2013

As a result of the foregoing, profit for the six months ended 31 December 2013 decreased by approximately 56.0%, or HK\$24.7 million, from approximately HK\$44.1 million for the six months ended 31 December 2012 to approximately HK\$19.4 million for the six months ended 31 December 2013. Profit for the six months ended 31 December 2013 represented in Japanese yen prior to conversion into Hong Kong dollars for the purposes of the Group's consolidated financial statements decreased by approximately 47.4%, or JPY¥215.4 million, from approximately JPY¥454.3 million for the six months ended 31 December 2012 to approximately JPY¥238.9 million for the six months ended 31 December 2013.

Management Discussion and Analysis

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), certain non-GAAP financial measures, including earnings before interest, taxes, depreciation and amortisation (the “EBITDA”) and EBITDA margin, have been presented in this report. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group’s financial performance prepared in accordance with HKFRSs. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies. The Company’s management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group’s core operations by excluding certain non-cash items.

The following tables set forth the reconciliations of the Company’s non-GAAP financial measures for the six months ended 31 December 2013 and 2012 to the nearest measures prepared in accordance with HKFRSs:

Unaudited six months ended 31 December 2013

		HK\$	Net margin	JP¥	Net margin
As reported	Profit for the period	19,403,882	3.7%	238,892,892	3.5%
Add-back non-cash items	Depreciation of property, plant and equipment	5,745,362		73,829,526	
	Amortisation of intangible assets	22,358,990		287,441,462	
	Interest expenses	582,640		7,495,035	
	Income tax expenses	14,638,016		184,332,287	
Non-GAAP	EBITDA	62,728,890	11.8%	791,991,202	11.6%

Unaudited six months ended 31 December 2012

		HK\$	Net margin	JP¥	Net margin
As reported	Profit for the period	44,107,578	7.3%	454,308,052	7.3%
Add-back non-cash items	Depreciation of property, plant and equipment	3,410,860		35,131,858	
	Amortisation of intangible assets	24,955,365		257,040,260	
	Interest expenses	452,746		4,663,284	
	Income tax expenses	34,635,489		356,745,537	
Non-GAAP	EBITDA	107,562,038	17.7%	1,107,888,991	17.7%

Management Discussion and Analysis

Recent Investment

Merger of Kotohako into NaviPlus

Pursuant to a merger and acquisition agreement dated 24 July 2013 between NaviPlus Co., Ltd. (“NaviPlus”) and Kotohako, Kotohako was merged into NaviPlus and ceased to be a separate legal entity with effect from 1 September 2013.

Investment in VeriTrans Shanghai

On 25 June 2013, the Company and Shanghai CardInfoLink Data Services Co., Ltd. entered into a subscription agreement, pursuant to which the Company subscribed for RMB100,000 (approximately HK\$126,582) of issued share capital of VeriTrans Shanghai for a consideration of RMB3,128,562.38 (approximately HK\$3,932,677), which was determined on an asset-based approach with reference to a valuation conducted by an independent third party, and then the Company became a shareholder of VeriTrans Shanghai with a 50% interest in November 2013.

Investment in Citrus India through Citrus Singapore

On 24 October 2013, the Company entered into an agreement to acquire a 15.59% interest in Citrus Singapore for a consideration of US\$4,599,999.90 (approximately HK\$35.9 million), which was determined on an arm’s length basis with reference to a valuation conducted by an independent third party, and then the Company acquired the 15.59% interest in Citrus Singapore in November 2013. Citrus Singapore owns 70% of the shares of Citrus India.

Capital Reduction

Details of the capital reduction of the Group are set out in note 15 to “Interim Condensed Consolidated Financial Statements” of this report.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Loans and Borrowings

As at 31 December 2013, the Group had no bank loan outstanding. The Group’s gearing ratio, as calculated by dividing the total borrowings by the total assets, was 0.0%.

Capital expenditures

The Group’s major capital expenditures consist primarily of expenditures to enhance the Group’s technologies, including software to be used in its payment services and purchase property, plant and equipment.

For the six months ended 31 December 2013, the Group’s capital expenditures amounted to HK\$3.8 million. These capital expenditures were funded by funds generated from the Group’s operating activities and capital contributions from the Company’s shareholders (the “Shareholders”).

Management Discussion and Analysis

Foreign exchange risk

The Group's consolidated financial statements are presented in Hong Kong dollars, which is also the Company's functional currency. The functional currency of the Company's operating subsidiaries, ECONTEXT and VeriTrans, is Japanese yen. Due to fluctuations in the exchange rate of Japanese yen, any trends associated with the financial performance of the Group's operations may not be accurately reflected in the Group's unaudited condensed consolidated financial statements. The Japanese yen depreciated against the Hong Kong dollar by 11.7% and 21.7% during the period from 31 December 2011 to 31 December 2012 and during the period from 31 December 2012 to 31 December 2013, respectively. Any fluctuations in the Japanese yen to Hong Kong dollar exchange rate in future reporting periods may also affect the comparability of the Group's results of operations with prior periods. The exchange rates between the Japanese yen and the Hong Kong dollar and other foreign currencies are affected by, among other things, changes in political and economic conditions. Following the completion of the Global Offering, the Group expects a significant portion of cash and cash equivalents to be denominated in currencies other than the Hong Kong dollar. As the Company's functional currency is Hong Kong dollar, such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of the Hong Kong dollar against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of the Hong Kong dollar against these foreign currencies may result in significant exchange losses.

Contingent liabilities

As at 31 December 2013, the Group had no material contingent liabilities and was not involved in any material legal proceedings. The Directors are not aware of any pending or potential material legal proceedings involving the Group.

Capital Commitments

As at 31 December 2013, the Group had no material capital commitments.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2013 (six months ended 31 December 2012: Nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2013, the Group had 175 employees. The Company's remuneration policy for the Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management of the Group.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 19 December 2013 by way of the Global Offering with the net proceeds of approximately HK\$383.4 million (before the full exercise of over-allotment option) being raised. The over-allotment option was exercised in full on 9 January 2014 with additional net proceeds of approximately HK\$64.9 million.

The Group has not used or does not propose to use the proceeds from the IPO in a manner different from that detailed in the prospectus of the Company dated 6 December 2013 (the "Prospectus").

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 17 to "Interim Condensed Consolidated Financial Statements" of this report.

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2013

	Notes	Six months ended 31 December	
		2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Revenue	3	531,203,276	606,828,728
Cost of sales		(398,225,814)	(439,388,163)
Gross profit		132,977,462	167,440,565
Selling, general and administrative expenses		(101,541,557)	(86,067,930)
Other operating income	6	2,515,995	1,519,569
Other operating expenses	6	(19,076)	(3,628,046)
Operating profit	5	33,932,824	79,264,158
Finance income	7	429,121	244,781
Finance costs	7	(582,640)	(452,746)
Share of after-tax income (loss) of an associate and a jointly-controlled entity		262,593	(313,126)
Profit before tax		34,041,898	78,743,067
Income tax expense	8	(14,638,016)	(34,635,489)
Profit for the period		19,403,882	44,107,578
Attributable to:			
Equity holders of the Company		20,432,863	45,235,038
Non-controlling interests		(1,028,981)	(1,127,460)
		19,403,882	44,107,578
Earnings per share for profit attributable to equity holders of the Company (in HK\$ per share)	9		
— basic		0.05	0.12
— diluted		0.05	0.12

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2013

	Notes	Six months ended 31 December	
		2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Profit for the period		19,403,882	44,107,578
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(79,249,399)	(123,415,119)
Other comprehensive loss for the period		(79,249,399)	(123,415,119)
Total comprehensive loss for the period		(59,845,517)	(79,307,541)
Attributable to:			
Equity holders of the Company		(59,200,795)	(77,679,493)
Non-controlling interests		(644,722)	(1,628,048)
		(59,845,517)	(79,307,541)

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	31 December 2013 HK\$ (Unaudited)	30 June 2013 HK\$ (Audited)
<i>Assets</i>			
CURRENT ASSETS			
Cash and cash equivalents		1,515,380,992	1,090,236,735
Payment processing receivables		709,791,045	628,824,456
Accounts receivable	10	20,657,731	25,376,372
Other current assets		33,729,055	30,524,048
		2,279,558,823	1,774,961,611
NON-CURRENT ASSETS			
Goodwill		383,863,258	410,440,730
Other intangible assets		648,029,540	695,304,549
Financial investments	13	56,075,005	21,406,583
Property, plant and equipment		38,915,927	46,641,288
Deferred tax assets		11,116,781	10,915,071
Investment in an associate		7,832,653	3,309,541
Investment in a jointly-controlled entity		4,099,305	–
Restricted cash		825,184	884,396
Security deposits		5,190,648	5,448,601
Other non-current assets		6,248,924	1,097,742
		1,162,197,225	1,195,448,501
TOTAL ASSETS		3,441,756,048	2,970,410,112
<i>Liabilities and equity liabilities</i>			
CURRENT LIABILITIES			
Payment processing payables		1,494,715,952	1,362,977,494
Accounts payable, other payables and accruals	11	62,149,101	61,370,386
Finance lease payables		216,320	228,953
Long-term advance received		1,742,274	–
Interest-bearing bank borrowings	12	–	217,703
Income tax payable		25,080,823	19,721,071
Other current liabilities		7,093,795	4,806,170
		1,590,998,265	1,449,321,777

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2013

	Notes	31 December 2013 HK\$ (Unaudited)	30 June 2013 HK\$ (Audited)
NON-CURRENT LIABILITIES			
Finance leases payables		734,318	901,398
Other non-current liabilities		1,748,491	1,886,667
Provisions		978,705	1,016,310
Deferred tax liabilities		200,886,719	217,920,174
		204,348,233	221,724,549
TOTAL LIABILITIES			
		1,795,346,498	1,671,046,326
<i>Equity</i>			
Issued capital	15	5,000,000	1,623,234,910
Share premium		2,025,126,191	–
Other reserves		(153,747,631)	(153,747,631)
Retained earnings		74,347,680	53,914,817
Foreign currency translation reserve		(309,140,909)	(229,507,251)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Non-controlling interests		4,824,219	5,468,941
TOTAL EQUITY			
		1,646,409,550	1,299,363,786
TOTAL LIABILITIES AND EQUITY			
		3,441,756,048	2,970,410,112
NET CURRENT ASSETS			
		688,560,558	325,639,834
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,850,757,783	1,521,088,335

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

	Attributable to equity holders of the Company							
	Issued capital	Share premium	Other reserves*	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
As at 1 July 2013 (audited)	1,623,234,910	-	(153,747,631)	53,914,817	(229,507,251)	1,293,894,845	5,468,941	1,299,363,786
Profit for the period	-	-	-	20,432,863	-	20,432,863	(1,028,981)	19,403,882
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	(79,633,658)	(79,633,658)	384,259	(79,249,399)
Total comprehensive income (loss) for the period	-	-	-	20,432,863	(79,633,658)	(59,200,795)	(644,722)	(59,845,517)
Capital reduction (note 15)	(1,621,611,675)	1,621,611,675	-	-	-	-	-	-
Capitalisation issue (note 15)	2,126,765	(2,126,765)	-	-	-	-	-	-
Issuance under initial public offering (note 15)	1,250,000	447,500,000	-	-	-	448,750,000	-	448,750,000
Share issuance expenses	-	(41,858,719)	-	-	-	(41,858,719)	-	(41,858,719)
As at 31 December 2013 (unaudited)	5,000,000	2,025,126,191	(153,747,631)	74,347,680	(309,140,909)	1,641,585,331	4,824,219	1,646,409,550

* Other reserves mainly represented contributions from less distributions to the ultimate holding company and other reserves arising from the Reorganisation (defined in note 2 to "Interim Condensed Consolidated Financial Statements" of this report).

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 31 December 2013

	Attributable to equity holders of the Company							
	Issued capital	Share premium	Other reserves*	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
As at 1 July 2012 (audited)	–	–	1,455,527,898	104,489,499	55,923,438	1,615,940,835	8,734,533	1,624,675,368
Profit for the period	–	–	–	45,235,038	–	45,235,038	(1,127,460)	44,107,578
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	–	–	–	–	(122,914,531)	(122,914,531)	(500,588)	(123,415,119)
Total comprehensive income (loss) for the period	–	–	–	45,235,038	(122,914,531)	(77,679,493)	(1,628,048)	(79,307,541)
Dividend paid by a subsidiary to the ultimate holding company	–	–	(102,021,203)	–	–	(102,021,203)	(204,779)	(102,225,982)
Issue of shares	100,000,000	–	–	–	–	100,000,000	–	100,000,000
Issue of shares for the Reorganisation	1,523,234,910	–	(1,523,234,910)	–	–	–	–	–
Distribution to the ultimate holding company	–	–	–	(99,502,488)	–	(99,502,488)	–	(99,502,488)
Transfer arising from the Reorganisation	–	–	15,980,584	(15,980,584)	–	–	–	–
As at 31 December 2012 (unaudited)	1,623,234,910	–	(153,747,631)	34,241,465	(66,991,093)	1,436,737,651	6,901,706	1,443,639,357
For the six months ended 31 December 2013								
Profit for the period	–	–	–	19,673,352	–	19,673,352	(391,841)	19,281,511
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	–	–	–	–	(162,516,158)	(162,516,158)	(1,040,924)	(163,557,082)
Total comprehensive income (loss) for the period	–	–	–	19,673,352	(162,516,158)	(142,842,806)	(1,432,765)	(144,275,571)
As at 30 June 2013 (audited)	1,623,234,910	–	(153,747,631)	53,914,817	(229,507,251)	1,293,894,845	5,468,941	1,299,363,786

* Other reserves mainly represented contributions from less distributions to the ultimate holding company and other reserves arising from the Reorganisation.

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2013

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	137,605,728	177,357,971
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	(46,147,538)	52,552,210
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	421,888,618	(101,728,470)
NET INCREASE IN CASH AND CASH EQUIVALENTS	513,346,808	128,181,711
Cash and cash equivalents at beginning of period	1,090,236,735	1,087,056,179
Effect of foreign exchange rate changes, net	(88,202,551)	(97,061,667)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,515,380,992	1,118,176,223
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	1,515,380,992	1,118,176,223

Notes to Interim Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

The principal activity of the Company is the holding of its subsidiaries, an associate and a jointly-controlled entity. The principal activities of the Group are the provision of online payment services and e-commerce solutions.

The Company was incorporated as a limited liability company in Hong Kong on 10 September 2012. The Company's registered office is located at Unit 607a, Level 6, Cyberport 3, 100 Cyberport Road, Hong Kong. The Company's issued ordinary shares of HK\$0.01 each (the "Shares") have been listed and traded on the Main Board of the Stock Exchange since 19 December 2013.

In the opinion of the Directors, the immediate holding company and the ultimate holding company of the Company is Digital Garage, which is incorporated in Japan and listed on JASDAQ.

2.1 BASIS OF PRESENTATION

Pursuant to a group reorganisation (the "Reorganisation") as set out under the section headed "HISTORY, REORGANISATION AND CORPORATE STRUCTURE" in the Prospectus, the Company became the holding company of the companies currently comprising the Group on 1 December 2012. The companies currently comprising the Group were under the common control of Digital Garage, the controlling shareholder, immediately before and after the Reorganisation. Accordingly, for the purpose of this report, the condensed consolidated financial statements has been prepared on a consolidated basis, including the assets, liabilities and results of operations of the business formerly operated by Digital Garage's payment segment/division, by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the relevant periods or since the date when the respective subsidiaries and/or businesses were incorporated/established or first came under the common control of the controlling shareholder, whichever is later.

The condensed consolidated income statements, condensed consolidated statements of comprehensive income, condensed consolidated statements of changes in equity and condensed consolidated statements of cash flows of the Group for the six months ended 31 December 2013 and 2012 include the results and cash flows of all the companies and businesses currently comprising the Group from the earliest date presented or since the date when the respective subsidiaries and/or businesses were incorporated/established or first came under the common control of the controlling shareholder, where this is a shorter period. The condensed consolidated statement of financial position of the Group as at 31 December 2013 and 2012 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholder, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on combination.

Notes to Interim Condensed Consolidated Financial Statements

2.2 BASIS OF PREPARATION

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Hong Kong Companies Ordinance.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s accountants’ report for the year ended 30 June 2013 as set out in the Prospectus.

The interim condensed consolidated financial statements have not been audited by the Company’s independent auditors but have been reviewed by the audit committee of the Company (the “Audit Committee”).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s accountants’ reports for the year ended 30 June 2013, except for the application of the following new and revised HKFRSs, HKAS and Hong Kong (IFRIC) Interpretation issued by the HKICPA for the first time for the current period’s condensed consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 19 (2011)	<i>HKAS 19 Employee Benefits</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

3. REVENUE

An analysis of the Group's revenue, which is also Group's turnover, is as follows:

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Initial setup and monthly fees	20,457,196	25,143,435
Settlement data transaction fees	27,524,370	38,745,972
Agency payment fees	444,281,649	489,592,739
Advertising related services	24,945,209	27,288,317
Information security services	6,166,248	11,706,063
Others	7,828,604	14,352,202
	531,203,276	606,828,728

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable segment as follows:

- Payment segment — provides a total payment platform as well as various payment solutions.

The information about other business activities and operating segments that are not reportable segments, being relatively small in size as compared to the Group as a whole, has been combined and disclosed in an "all other segments" category. The revenue included in the all other segments category represents revenue from advertising related services.

In addition to the payment segment, management does, however, monitor the operating results of certain smaller business units separately for the purpose of making decisions about resource allocation and/or performance assessment. As noted above, their information has been combined and disclosed in an "all other segments" category. Segment performance is evaluated based on operating profit or loss and is measured consistently with profit or loss before income tax expense in the condensed consolidated financial statements.

Inter-segment revenues are eliminated upon combination and reflected in the adjustments and eliminations column.

Notes to Interim Condensed Consolidated Financial Statements

4. OPERATING SEGMENT INFORMATION *(Continued)* Segmental Financial Information

Six months ended 31 December 2013	Payment segment HK\$	All other segments HK\$	Adjustments and eliminations HK\$	Total HK\$
Revenue				
External customers	506,258,067	24,945,209	–	531,203,276
Inter-segment	–	46,680	(46,680)	–
Total revenue	506,258,067	24,991,889	(46,680)	531,203,276
Segment profit/(loss) before tax	50,456,499	(16,414,601)	–	34,041,898
Other disclosures				
Depreciation and amortisation	(26,270,018)	(1,834,334)	–	(28,104,352)

Six months ended 31 December 2012	Payment segment HK\$	All other segments HK\$	Adjustments and eliminations HK\$	Total HK\$
Revenue				
External customers	579,540,411	27,288,317	–	606,828,728
Inter-segment	–	58,252	(58,252)	–
Total revenue	579,540,411	27,346,569	(58,252)	606,828,728
Segment profit/(loss) before tax	81,107,931	(2,364,864)	–	78,743,067
Other disclosures				
Depreciation and amortisation	(26,322,576)	(2,043,649)	–	(28,366,225)

Information about major customers

The Group had no customer whose revenue amount exceeded 10% or more for the six months ended 31 December 2013 and 2012.

Notes to Interim Condensed Consolidated Financial Statements

5. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting):

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Employee benefit expense (including directors' remuneration):		
Salaries, allowances, bonuses and benefits in kind*	36,121,292	31,439,606
Social security costs*	5,131,276	5,121,230
Pension scheme contributions* [^]	1,751,426	992,831
Less: Amount capitalised	(2,807,044)	(2,059,667)
	40,196,950	35,494,000
Minimum lease payments under operating leases in respect of land and buildings	6,909,993	5,970,452
Depreciation of property, plant and equipment	5,745,362	3,410,860
Amortisation of intangible assets	22,358,990	24,955,365
Auditors' remuneration for audit services	350,092	218,447
Impairment of accounts receivable	112,838	83,641
Initial public offering expenses	16,740,694	1,009,508

[^] As at 31 December 2013 and 30 June 2013, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years.

* Before deducting amount capitalised.

Notes to Interim Condensed Consolidated Financial Statements

6. OTHER OPERATING INCOME AND EXPENSES

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
<i>Other operating income</i>		
Vendor's contribution to software development	–	679,612
Foreign exchange gains, net	2,439,620	–
Others	76,375	839,957
	2,515,995	1,519,569
<i>Other operating expenses</i>		
Foreign exchange losses, net	–	3,217,051
Others	19,076	410,995
	19,076	3,628,046

7. FINANCE INCOME AND COSTS

An analysis of finance income and costs is as follows:

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
<i>Finance income</i>		
Bank interest income	83,180	182,311
Gain on sale of commercial bonds	112,659	–
Other finance income	233,282	62,470
Total finance income	429,121	244,781
<i>Finance costs</i>		
Interest on bank loans and overdrafts wholly repayable within five years or on demand	571,694	452,746
Interest on finance lease	10,946	–
Total finance cost	582,640	452,746

Notes to Interim Condensed Consolidated Financial Statements

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the current reporting period as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 December 2013 (six months ended 31 December 2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
<i>Current income tax</i>		
Current income tax charge — Japan	25,810,260	38,407,731
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	(11,172,244)	(3,772,242)
Total tax expense reported in the condensed consolidated income statement	14,638,016	34,635,489

Notes to Interim Condensed Consolidated Financial Statements

9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

Earnings for the purposes of basic and diluted earnings per share

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Profit for the period attributable to equity holders of the Company (a)	20,432,863	45,235,038

Number of shares for the purposes of basic and diluted earnings per share

	2013	2012
Issued ordinary shares as at 1 July*	375,000,000	375,000,000
Effect of shares issued pursuant to the placing and public offering	8,831,522	–
Weighted average number of ordinary shares as at 31 December for the purpose of basic earnings per share (b)	383,831,522	375,000,000
Effect of dilutive potential ordinary shares: — over-allotment option	1,324,728	–
Weighted average number of ordinary shares as at 31 December for the purpose of diluted earnings per share (c)	385,156,250	375,000,000
Basic earnings per share for profit attributable to equity holders of the Company (a)/(b)	0.05	0.12
Diluted earnings per share for profit attributable to equity holders of the Company (a)/(c)	0.05	0.12

* Issued share capital as at 1 July 2013 and 2012 represented ordinary shares of the Company in issue as if the capitalisation issue described in note 15 had taken place as at 1 July 2012.

Notes to Interim Condensed Consolidated Financial Statements

10. ACCOUNTS RECEIVABLE

	31 December 2013 HK\$ (Unaudited)	30 June 2013 HK\$ (Audited)
Accounts receivable	21,142,720	25,789,954
Impairment	(484,989)	(413,582)
	20,657,731	25,376,372

11. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	31 December 2013 HK\$ (Unaudited)	30 June 2013 HK\$ (Audited)
Accounts payable	10,101,933	8,958,834
Other payables	46,804,255	46,018,011
Accruals	5,242,913	6,393,541
	62,149,101	61,370,386

12. INTEREST-BEARING BANK BORROWINGS

	Interest rate	31 December 2013 HK\$ (Unaudited)	30 June 2013 HK\$ (Audited)
Current			
Bank loan — unsecured	1.8%	—	217,703
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year		—	217,703

VeriTrans has unsecured lines of credit with two banks in Japan up to an amount of JP¥5 billion (approximately HK\$367.9 million) and JP¥2 billion (approximately HK\$147.2 million), respectively, with an interest rate of 1.475% per annum. ECONTEXT also has a line of credit with a bank in Japan up to an amount of JP¥4 billion (approximately HK\$294.3 million) with an interest rate of 1.475% per annum, which is secured by the Group's equity interest in VeriTrans. There was no balance outstanding under these lines of credit as at 30 June and 31 December 2013.

Notes to Interim Condensed Consolidated Financial Statements

13. FINANCIAL INVESTMENTS

	31 December 2013 HK\$ (Unaudited)	30 June 2013 HK\$ (Audited)
Available-for-sale investment	41,358,302	5,670,942
Commercial bonds	14,716,703	15,735,641
	56,075,005	21,406,583

Available-for-sale investment

As at 31 December 2013, an unlisted equity investment with a carrying amount of HK\$41,358,302 (30 June 2013: HK\$5,670,942) were stated at cost less any impairment losses because the fair value is not readily determinable.

14. FAIR VALUES

As at 31 December 2013, except for the available-for-sale investment in which its fair value is not readily determinable as detailed in note 13 above, the fair values of the Group's financial assets and financial liabilities approximated to their carrying amounts or are not materially different from their carrying amounts.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, payment processing receivables, accounts receivable, commercial bonds, restricted cash, security deposits, accounts payable, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and current portion of finance lease payables approximate to their carrying amounts largely due to the short term maturities of these instruments or as the effect of discounting is not material.

The fair values of the non-current portion of finance lease payables and commercial bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

Notes to Interim Condensed Consolidated Financial Statements

15. SHARE CAPITAL

Company

Authorised share capital

	Number of shares	Amount HK\$
As at 30 June 2013	649,293,964	6,492,939,640
Capital reduction	–	(6,486,446,700)
Capitalisation issue	1,350,706,036	13,507,060
As at 31 December 2013	2,000,000,000	20,000,000

Issued and fully-paid share capital

	Number of shares	Amount HK\$
As at 30 June 2013	162,323,491	1,623,234,910
Capital reduction	–	(1,621,611,675)
Capitalisation issue	212,676,509	2,126,765
Issuance under initial public offering	125,000,000	1,250,000
As at 31 December 2013	500,000,000	5,000,000

Notes to Interim Condensed Consolidated Financial Statements

15. SHARE CAPITAL (Continued)

Company (Continued)

The following changes in share capital of the Company took place during the period from 30 June 2013 through 31 December 2013.

Capital reduction

Pursuant to written resolutions of the Shareholders passed on 9 August 2013 in accordance with section 58 of the Hong Kong Companies Ordinance, the issued share capital of the Company was reduced from HK\$1,623,234,910 divided into 162,323,491 shares of par value HK\$10.00 each to HK\$1,623,234.91 divided into 162,323,491 shares of par value HK\$0.01 each by cancelling the paid up capital of the Company to the extent of HK\$9.99 on each issued share of the Company. The amount arising from the reduction, being HK\$1,621,611,675.09, was credited to the share premium account of the Company. The reduction of the capital of the Company became effective on 22 October 2013. In addition, the authorised share capital of the Company was reduced from HK\$6,492,939,640 divided into 649,293,964 shares of par value HK\$10.00 each to HK\$6,492,939.64 divided into 649,293,964 shares of par value HK\$0.01 each.

Capitalisation issue

Pursuant to written resolutions of the Shareholders passed on 15 November 2013, the authorised share capital of the Company was increased from HK\$6,492,939.64 divided into 649,293,964 shares of par value HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 shares of par value HK\$0.01 each. In addition, the Directors were authorised to capitalise HK\$2,126,765.09 standing to the credit of the share premium account of the Company and apply such sum in paying up in full at par 212,676,509 Shares for allotment and issue to the Shareholders whose names appear on the register of members of the Company as of the close of business on 18 December 2013 in proportion (or as near as possible) to their then existing shareholdings in the Company and such Shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued Shares. Those Shares were issued immediately following completion of the Global Offering.

Issuance under initial public offering

On 19 December 2013, 125,000,000 Shares were issued and offered for subscription at a price of HK\$3.59 each upon the listing of the Shares on the Stock Exchange. The proceeds of HK\$1,250,000, representing the par value, have been credited to the Company's share capital. The remaining proceeds of approximately HK\$447,500,000 and the share issuance expenses of HK\$41,858,719 have been recorded in the share premium account.

Immediately following completion of the Global Offering, the authorised share capital of the Company was HK\$20,000,000 divided into 2,000,000,000 Shares, and the Company's issued share capital was HK\$5,000,000 divided into 500,000,000 Shares, all fully paid.

Notes to Interim Condensed Consolidated Financial Statements

16. RELATED PARTY TRANSACTIONS

This report includes the historical financial information of the Company and the other companies currently comprising the Group listed in the following table:

	Country of incorporation	% of equity/ ownership interest	
		31 December 2013	30 June 2013
ECONTEXT, Inc.*	Japan	100	100
VeriTrans Inc.	Japan	99.8	99.8
eCURE Co., Ltd.	Japan	99.8	99.8
NaviPlus Co., Ltd.	Japan	94.8	94.8
iResearch Japan Co., Ltd.	Japan	66.6	66.6
JJ-Street Inc.	Japan	49.9	49.9
Coolpat Co., Ltd.	Japan	99.8	99.8
Kotohako, Inc.	Japan	–	94.8
E-Commerce Asia Association	Japan	99.8	99.8

* The business currently operated by ECONTEXT was a former division/segment of Digital Garage. For the purpose of this report, the assets and liabilities of that business have been included in the consolidated statement of financial position of the Group.

In addition to the transactions, arrangements and balances detailed elsewhere in this report, the Group had the following transactions with related parties at terms agreed between the relevant parties during the periods presented:

(i) Ultimate holding company: Digital Garage

	Six months ended 31 December	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
<i>Income and expenses</i>		
Intellectual property license fees	11,421,361	7,749,546
Salaries and other benefits paid for secondment arrangement	1,330,145	269,000
Office rental expense ⁺	4,693,149	3,719,319
Business support expense	2,011,867	2,998,563
Directors' remuneration [^]	499,640	356,874
Salaries, allowances and benefits in kind for employees [^]	43,044	3,238,810
Outsourcing expense	–	144,749
Dividend paid by a subsidiary to the ultimate holding company*	–	102,021,203
Distribution to the ultimate holding company**	–	99,502,488

+ The office rental expenses are related to sublease arrangement with Digital Garage.

* Being dividend paid by VeriTrans to Digital Garage.

** Being cash distribution to Digital Garage.

[^] Being amounts attributable to the Group allocated from Digital Garage and social security costs and pension scheme contributions of such individuals were borne by Digital Garage.

Notes to Interim Condensed Consolidated Financial Statements

16. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Other related party

	Six months ended	Sales thereto HK\$	Purchases therefrom HK\$
Kakaku.com, Inc.	31 December 2013	3,360,120	1,680,060
	31 December 2012	–	1,523,947

Kakaku.com, Inc. is an associate company of Digital Garage during the period.

Terms and conditions of transactions with related parties

Generally, sales and purchases between related parties are made/or with reference to normal market prices or agreed terms. The Group has not provided or benefited from any guarantees for any related party receivables or payables. The Group has not made any provision for doubtful debts relating to amounts owed by related parties.

Regarding the intellectual property license fees to Digital Garage, VeriTrans and ECONTEXT paid a fee of 2.5% of their revenue to Digital Garage. The payment was made for the use of Digital Garage's brand and payment was made at the end of each month. The underlying agreement runs from 1 October 2012 and contains a provision for automatic renewal for additional one year.

Salaries, allowances and benefits in kind for seconded employees were charged by Digital Garage based on terms mutually agreed.

17. EVENTS AFTER THE REPORTING PERIOD

On 9 January 2014, the over-allotment option was exercised in full by the sole global coordinator of the Company on behalf of the underwriters of the international placing, to require the Company to issue 18,750,000 additional Shares (the "Over-allotment Shares"), representing approximately 15% of the offer Shares initially available under the Global Offering, to cover over-allocations in the international offering. The Over-allotment Shares were issued by the Company at HK\$3.59 per Share (excluding brokerage of 1%, the Securities and Futures Commission transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%), being the offer price per offer Share under the Global Offering.

Immediately before the full exercise of the over-allotment option, approximately 39.60% of the issued share capital of the Company was held by the public. Such shareholding percentage prescribed under Rule 8.08 (1)(a) of the Listing Rules. After deduction of the underwriting fees and commissions, the Company received additional net proceeds of approximately HK\$64.9 million from the sales of the Over-allotment Shares. The Company will use the additional proceeds for the same purposes as set out in the section entitled "USE OF PROCEEDS" in the Prospectus on a pro rata basis.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2013, the interests or short positions of the Directors and chief executives of the Company or their respective associates (as defined under the Listing Rules) in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the shares of associated corporations

(a) Digital Garage, Inc.

Name of Director	Capacity in which shares are held	Number of common shares held	Approximate percentage of total interests in the issued shares
Kaoru Hayashi	Beneficial owner	6,757,000	14.31%
Keizo Odori	Beneficial owner	1,000	0.002%

(b) VeriTrans Inc.

Name of Director	Capacity in which shares are held	Number of common shares held	Approximate percentage of total interests in the issued shares
Kaoru Hayashi	Beneficial owner	162	0.10%
Takashi Okita	Beneficial owner	112	0.06%
Tomohiro Yamaguchi	Beneficial owner	50	0.03%

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives of the Company or their respective associates had, or was deemed to have, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2013, so far as it was known by or otherwise notified by any Director or chief executive of the Company, the following persons (other than the Directors and chief executives of the Company) had 5% or more interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company.

Long positions ("L") and short positions ("S") in the Shares

Name of Shareholders	Capacity in which Shares are held	Number of Shares held	Approximate percentage of total interests in the issued Shares
Digital Garage, Inc. (Note 1)	Beneficial owner	301,874,998(L)	60.37%
Sumitomo Mitsui Card Company, Limited (Note 1)	Beneficial owner	37,500,002(L)	7.50%
SMFG Card & Credit, Inc. (Note 2)	Interest in controlled corporation	37,500,002(L)	7.50%
Sumitomo Mitsui Financial Group, Inc. (Note 2)	Interest in controlled corporations	37,500,002(L)	7.50%
Credit Saison Co., Ltd.	Beneficial owner	28,125,000(L)	5.62%
Daiwa Capital Markets Hong Kong Limited (Note 3)	Beneficial owner	37,500,000(L) 18,750,000(S)	7.50% 3.75%
Daiwa Capital Markets Asia Holding B.V. (Note 3)	Interest in controlled corporation	37,500,000(L) 18,750,000(S)	7.50% 3.75%
Daiwa International Holdings Inc. (Note 3)	Interest in controlled corporations	37,500,000(L) 18,750,000(S)	7.50% 3.75%
Daiwa Securities Group Inc. (Note 3)	Interest in controlled corporations	37,500,000(L) 18,750,000(S)	7.50% 3.75%

Notes:

- (1) Mr. Kaoru Hayashi, an executive Director and Chairman of the Company, held 6,757,000 common shares of Digital Garage. Mr. Keizo Odori, an executive Director, held 1,000 common shares of Digital Garage.
- (2) Sumitomo Mitsui Card Company, Limited ("SMCC") was a subsidiary of SMFG Card & Credit, Inc. ("SMFGCC") which was wholly owned by Sumitomo Mitsui Financial Group, Inc. ("SMFG"). Thus, SMFGCC and SMFG were deemed to be interested in such Shares which SMCC was interested in pursuant to Part XV of the SFO.

Other Information

- (3) Daiwa Capital Markets Hong Kong Limited (“DCMHK”) was wholly owned by Daiwa Capital Markets Asia Holdings B.V. (“DCMA”). DCMA was wholly owned by Daiwa International Holdings Inc. (“DIH”) which in turn was wholly owned by Daiwa Securities Group Inc. (“DSG”). Thus, DCMA, DIH and DSG were deemed to be interested in such Shares which DCMHK was interested in pursuant to Part XV of the SFO.
- (4) The total number of issued Shares as at 31 December 2013 was 500,000,000 which has been used in the calculation of the approximate percentage.

Save as disclosed above, as at 31 December 2013, there were no other persons who were recorded in the register of the Company as having interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company.

CORPORATE GOVERNANCE

The Board is committed to developing and evaluating the corporate governance practices of the Company with the goal of achieving high standards of corporate governance to safeguard the interests of all Shareholders, which shall be consistent with any applicable laws, regulations and listing standards. The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 to the Listing Rules since the date of listing of the Shares on the Stock Exchange on 19 December 2013 (the “Date of Listing”).

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors and relevant employees in the securities of the Company. Having made specific enquiries by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code since the Date of Listing.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries since the Date of Listing.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee is to review and supervise the financial reporting process and internal control system of the Group and provide advice and recommendations to the Board. The Audit Committee comprises three members, including two independent non-executive Directors, namely Mr. Toshio Kinoshita (Chairman) and Mr. Takao Nakamura, and one non-executive Director, namely Mr. Adam David Lindemann. The Audit Committee has reviewed the accounting principles and practice adopted by the Group and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 31 December 2013.

By Order of the Board
econtext Asia Limited
Kaoru Hayashi
Chairman

Hong Kong, 13 February 2014