

---

## INDUSTRY OVERVIEW

---

*Certain information and statistics set out in this section and elsewhere in this document relating to the online payment services industry are derived from various government and other sources and from the MIC Report which was commissioned by us. Other than the MIC Report, none of the reports cited in this document was commissioned by us.*

*We believe that the sources of information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. No independent verification has been carried out on such information and statistics by us and no representation is given as to the accuracy of such information and statistics.*

### OVERVIEW OF ONLINE PAYMENT SERVICES

The primary role of an online payment service provider ("**online PSP**") is to act as an intermediary between online merchants and payment networks for execution and settlement of a payment by various payment methods including credit cards, eMoney, convenience stores or other local payment networks.

The functions of an online PSP typically include: merchant acquiring (i.e. linking merchants and payment networks and acting as the interface for those merchants on an ongoing basis), data processing (i.e. processing transactional and customer payment information and performing payment related functions such as obtaining authorization), and acting as a fund transfer agent (i.e. receiving funds from payment networks and forwarding funds to online merchants).

The process for a typical online transaction includes the following steps:

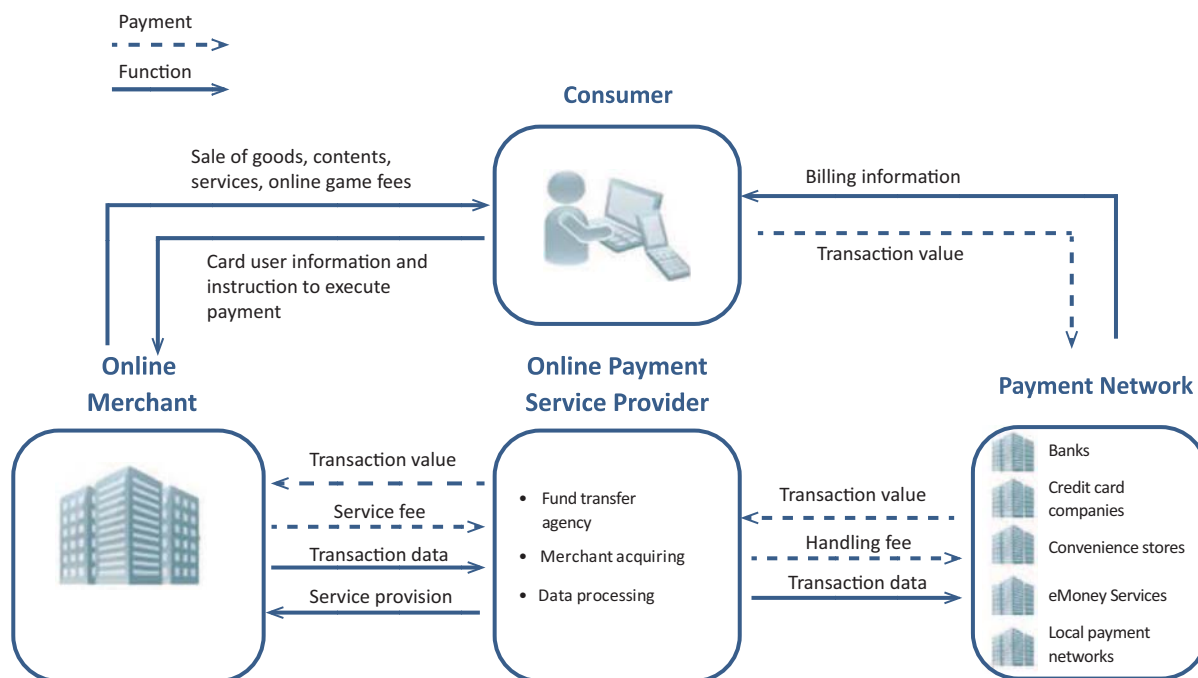
- the consumer first sends a request electronically to an online merchant to purchase items/services through the merchant's website;
- the online merchant then makes a request to an online PSP to execute the payment transaction between itself and its customer (the consumer) through the internet;
- in response to the request, the online PSP executes a series of processes including: obtaining authorization, capturing the transaction information, transmitting the captured data, payment information and billing information to the applicable payment network, processing settlement and transaction data, receiving the amount of the transaction value from the payment network transferring the amount of the transaction value less service fees to the merchant's bank account. Payments can be handled directly between the payment network (in the case of credit card payment) and the merchant's bank, or through an online PSP acting as the fund transfer agent; and
- in exchange for performing these services, the online PSP will typically receive a service fee from the online merchant/retailer, a portion of which is shared with the payment network.

This process varies depending on the arrangements with each customer (i.e. online merchants), and may have some variations in different regional markets.

## INDUSTRY OVERVIEW

The use of an independent online PSP enables online merchants to outsource the payment specialist functionality that requires high security capabilities so that they can focus on their own core business. For payment networks, the use of an online PSP enables them to easily access and quickly manage a large volume of customers through a single partner using a single interface.

### Overview of the Typical Online Payment Services Process



Regarding the handling fees we pay to payment network, there is no publicly available information on the industry trend.

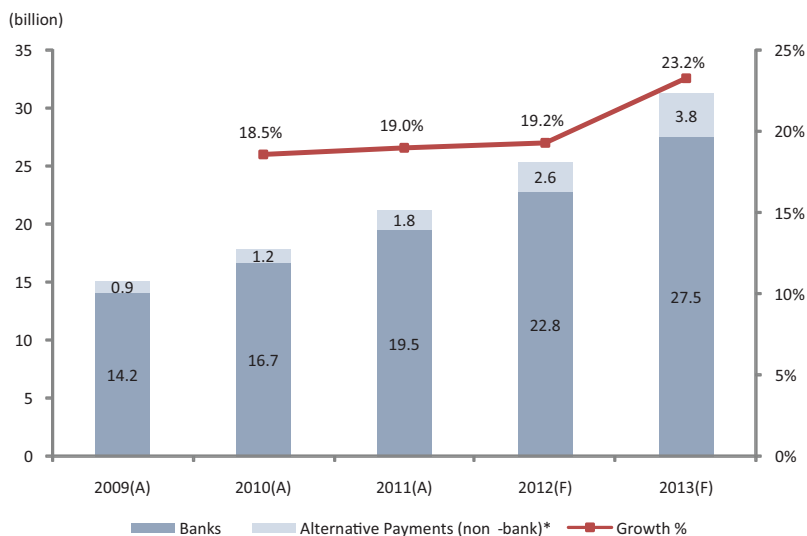
### DEVELOPMENT OF THE ONLINE PAYMENT SERVICES MARKET

Prior to the 1990s, the payments market was dominated by banks, and innovations in the payments market were largely driven by the incremental pursuit of efficiencies. The online payment services market grew along with the advent of the internet for commercial use during the 1990s. Since that time, innovations in the payments market have been focused on the internet and mobile channels and largely driven by non-bank market participants.

Consistent with high levels of ongoing innovation, the global market for online payment services continues to grow rapidly. The volume of online payment transactions globally is forecast to reach 31.4 billion transactions in 2013 after growing at a CAGR of 20.0% from 2009 to 2013 according to the World Payments Report 2012 published by Cap Gemini S.A., The Royal Bank of Scotland plc and European Financial Management & Marketing Association. This is driven by factors including the constant growth of internet subscribers around the world, the continuous shift from physical retail (through merchants having storefronts) to internet retail, the increase in the amount of time consumers spend online, the rise of mobile payment methods and the widespread use of smartphones. Particularly in countries with low internet penetration, the increasing growth of smartphone sales has resulted in the mass adoption of electronic payments through the mobile channel.

## INDUSTRY OVERVIEW

### Number of Global Online-Payment Transactions, 2009-2013F



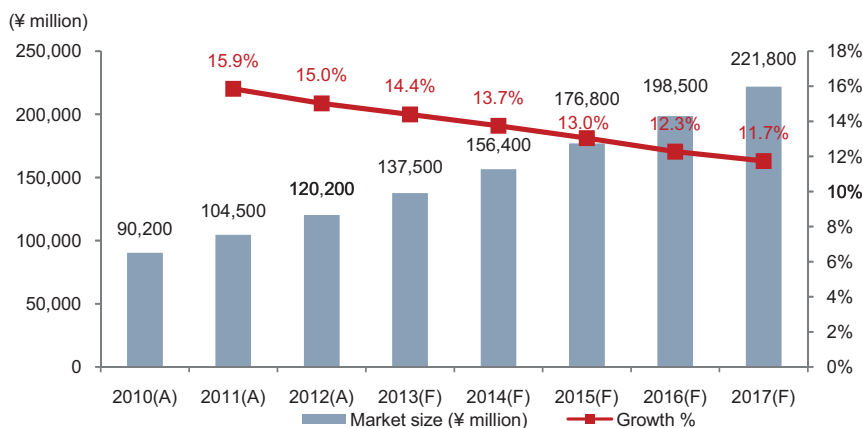
Alternative payments are carried out by non-bank firms such as eMoney licensed institutions, mobile phone and telecommunications firms, large retailers, etc

Source: World Payments Report 2012

### THE JAPANESE ONLINE PAYMENT SERVICES MARKET

The Japanese online payment services market is one of the most developed in the Asia Pacific region. The estimated revenue generated by online payment service providers was ¥120 billion (approximately HK\$9.1 billion) in 2012 according to MIC Research Institute. The market is forecast to grow at a CAGR of 13.0% from 2012 to reach revenue of ¥222 billion (approximately HK\$16.8 billion) in 2017.

### Size and Growth of the Japanese Online Payment Services Market



Source: MIC Research Institute

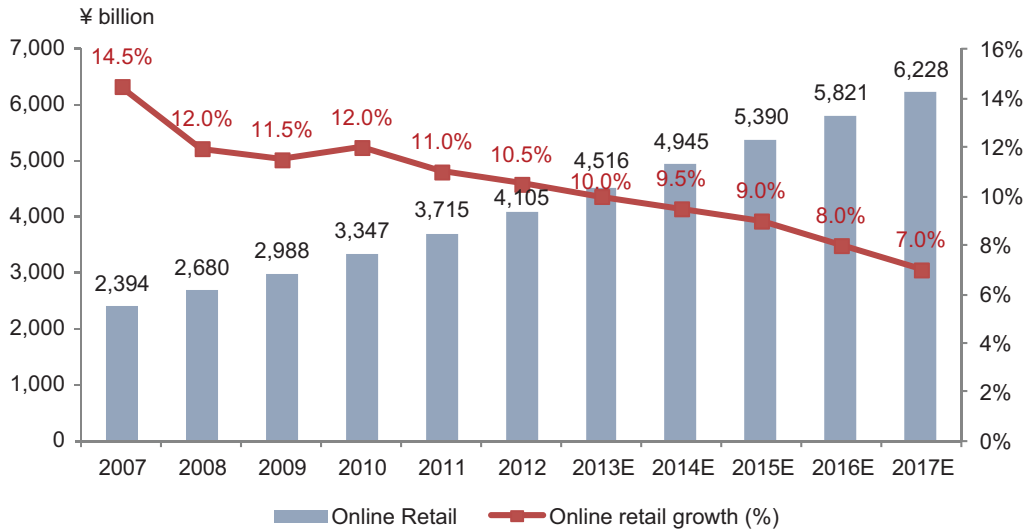
### The Japanese Online Retail Market

Growth in the Japanese online payment services market is primarily driven by and closely related to the growth in the Japanese online retail market. The aggregate transaction value of the

## INDUSTRY OVERVIEW

Japanese online retail market reached ¥4,105 billion (approximately HK\$311.3 billion) in revenue in 2012 and is forecast to grow at a CAGR of 8.7% from 2012 to reach ¥6,228 billion (approximately HK\$472.3 billion) in revenue in 2017 according to the Euromonitor Japan Report.

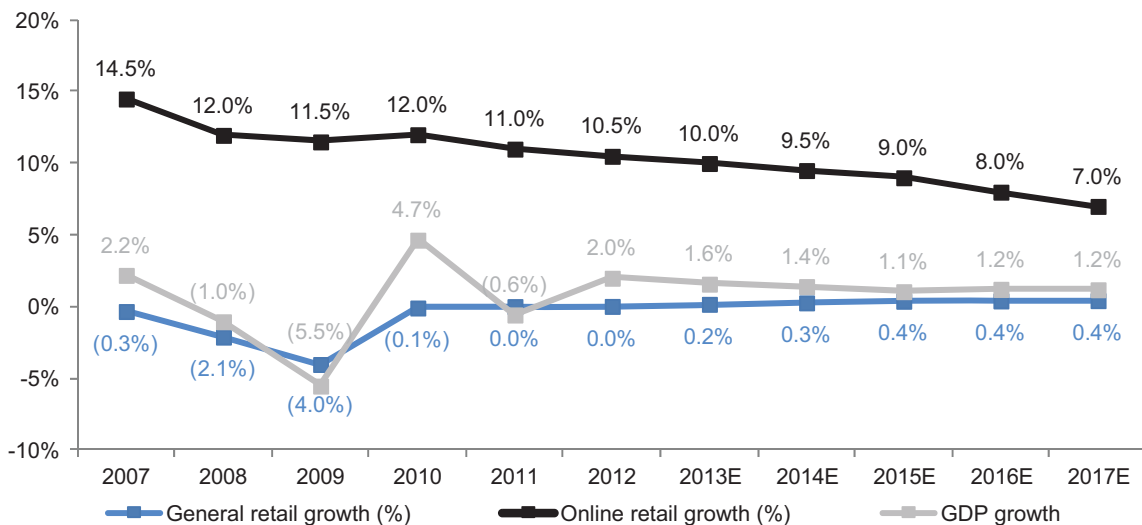
### Aggregate Transaction Value and Growth of the Japanese Online Retail Market



Source: Euromonitor

The overall Japanese retail market has been affected by some negative factors including long term implications of demographic ageing, which has influenced the Japanese economy. In contrast, the Japanese online retail market has grown strongly and consistently during the last four years and is forecast to continue to outperform the broader Japanese retail market.

### Japanese Retail Market Growth



Sources: Euromonitor, International Monetary Fund

## INDUSTRY OVERVIEW

Euromonitor's data projection is primarily based on historical trends as well as trade surveys. Euromonitor engaged a variety of personnel from key industry players for their views on the development of the industry in the next five years with a focus on their views on future sales volumes and average selling trends compared to historical trends. Parties interviewed included suppliers, distributors, retailers, service operators and industry associations. Trade associations engaged included the Internet Association Japan, and companies engaged for interviews included Amazon.com, Rakuten and other such internet retailers.

According to the Japanese Ministry of Economy's report in 2013 on e-commerce business, the penetration rate of e-commerce is growing steadily from 1.79% of total private consumption in 2008 to 3.11% in 2012.

### Japan e-Commerce Penetration Rate by Sector

		Year	
		2011	2012
	<b>Sector</b>		
Retailing	Integrated retailing . . . . .	4.74%	5.05%
	Apparel and accessory retailing . . . . .	1.12%	1.33%
	Grocery retailing . . . . .	0.85%	0.96%
	Automobile, furniture, electronic device retailing . . . . .	4.08%	4.29%
	Pharmaceutical and cosmetics retailing . . . . .	3.64%	4.02%
	Sport, book, music and toy retailing . . . . .	2.46%	2.74%
Service	Hotel, travel and food services . . . . .	5.47%	6.16%
	Entertainment . . . . .	0.89%	0.94%

*Source: Japanese Ministry of Economy's report in 2013 on e-commerce business*

During the period from 2011 to 2012, particular growth was demonstrated by pharmaceutical and cosmetics retailers which grew by 19.3%, apparel and accessory retailers which grew by 21.5% and hotel, travel and food services which grew by 17.8%.

Growth in the Japanese online retail market has been driven by the following factors:

#### ***Increasing bandwidth of landline and mobile networks***

Higher bandwidth speeds on both landline and mobile internet enables, firstly, a superior user experience, which encourages online spending, and secondly, more rapid download of data, which encourages purchase of digital content such as video, game and music streams.

In the early 2000s, internet users grew significantly in Japan because of the spread of low cost fixed ADSL services. With the spread of mobile phones, mobile e-commerce in Japan was developed in a different way from desktop-based e-commerce particularly due to the different content. For example, mobile internet services such as i-mode provided by docomo or Ezweb provided by KDDI were key in initiating mobile e-commerce. The subsequent spread of smartphones and 4G LTE services enabled users to use the same e-commerce services through mobile phone as desktop computers.

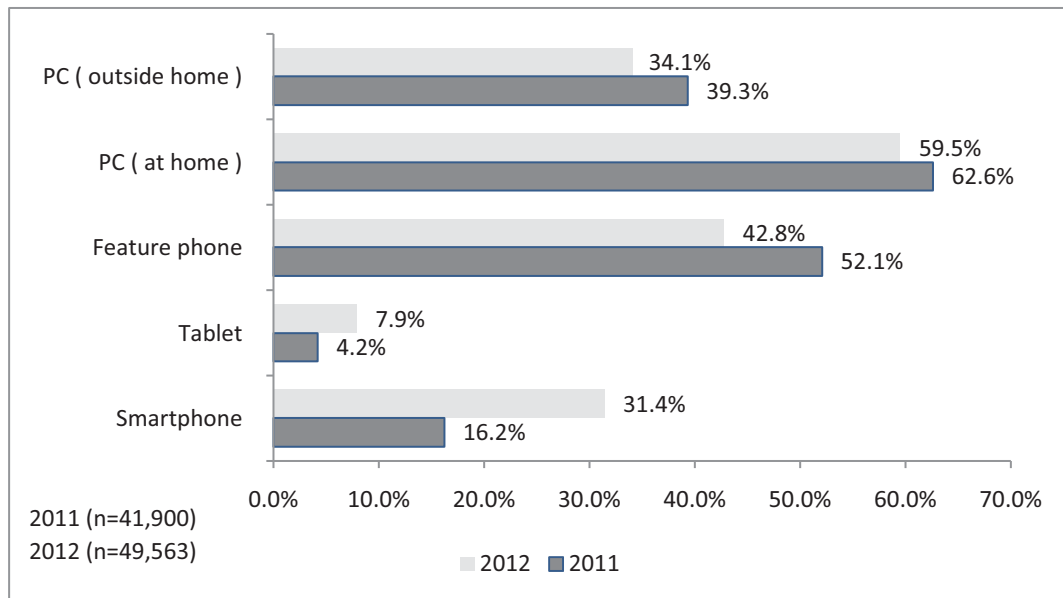
docomo, the largest mobile telecommunication carrier in Japan, started providing high speed 4G LTE service from December 2010. KDDI and Softbank also started providing 4G LTE services from September 2012. According to the Fuji Chimera Research Report, 52.2% of mobile phone subscribers are expected to sign contracts for 4G LTE network connections by 2014, with penetration further increasing thereafter.

## INDUSTRY OVERVIEW

### *Increasing widespread use of wireless devices*

The emergence and growth of smart wireless devices such as tablet computers and smartphones have encouraged the development of applications for purchasing goods and services using mobile devices, such as the core service of Amazon's "Kindle" tablet computers, Apple's "iTunes" and docomo's "d Market" for smartphones and tablet PCs.

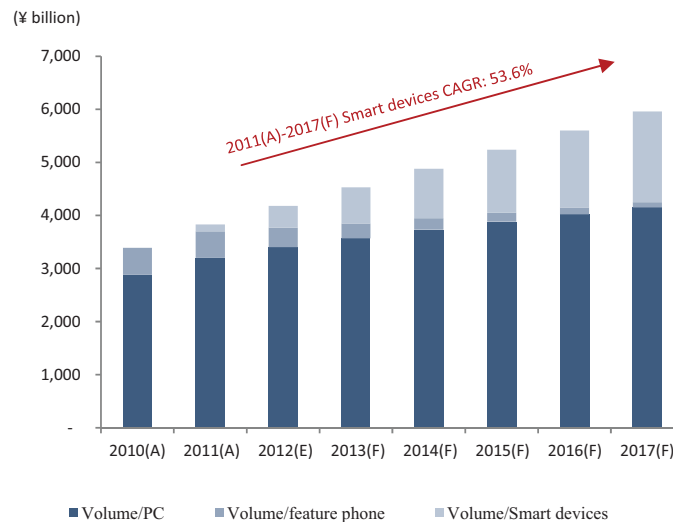
**Penetration rate by device in Japan**



Source: *Communication service survey report 2012* published by Ministry of Internal Affairs and Communications of Japan

In addition, improvements in the mobile bandwidth speed that allow streaming of media on the move has created a rapidly growing mobile download market. According to Fuji Chimera, the value of online shopping transactions carried out using smart devices is forecast to grow at a CAGR of 33.1% from ¥410 billion (approximately HK\$31.1 billion) in 2012 to reach a size of ¥1,710 billion (approximately HK\$129.7 billion) in 2017.

**Japan Online Shopping Aggregate Transaction Value by Device**



Source: *Fuji Chimera Research Report*

## INDUSTRY OVERVIEW

### *Diversification and Expansion Strategies of Leading Players in the Online Retail Market*

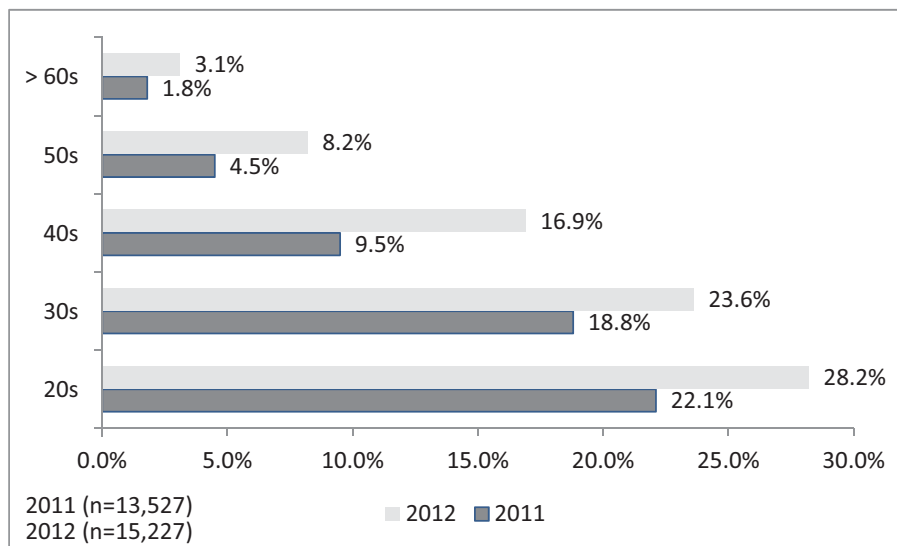
The five largest participants in the Japanese online retail market according to the Euromonitor Japan Report are Rakuten (26.4% share in 2012), Amazon Japan (14.3%), Apple Japan (5.1%), Yahoo! Japan (3.0%) and Senshukai (1.8%). The top three participants are rapidly increasing market share through the provision of superior customer service, an ever expanding range of products and through corporate acquisitions. Other major retail and department stores such as AEON Group, Seven & i Group, Takashimaya and Isetan Mitsukoshi Group have also started to focus on online retailing.

### *Increasing e-commerce Activity on Social Networking Services*

Social networking services are increasingly monetizing their user base through the provision of e-commerce functionality, such as promoting product sales by reviews and comments left on a social media site by members who are also consumers. In March 2012, for example, DeNA Co., Ltd. and Mixi, Inc. partnered to launch a platform called "mixi mall" on the Mixi social network. The platform enables users to review comments on products from other users and to promote increased sales and more active communication among users.

The penetration rate of social networking services in Japan is increasing significantly. The following diagram sets out the result of a survey with regard to the usage of social networking services by age group conducted by the Ministry of Internal Affairs and Communications of Japan showing the percentage of such usage by age group in 2011 and 2012 respectively.

**Use of Social Networking Services by age group in Japan**



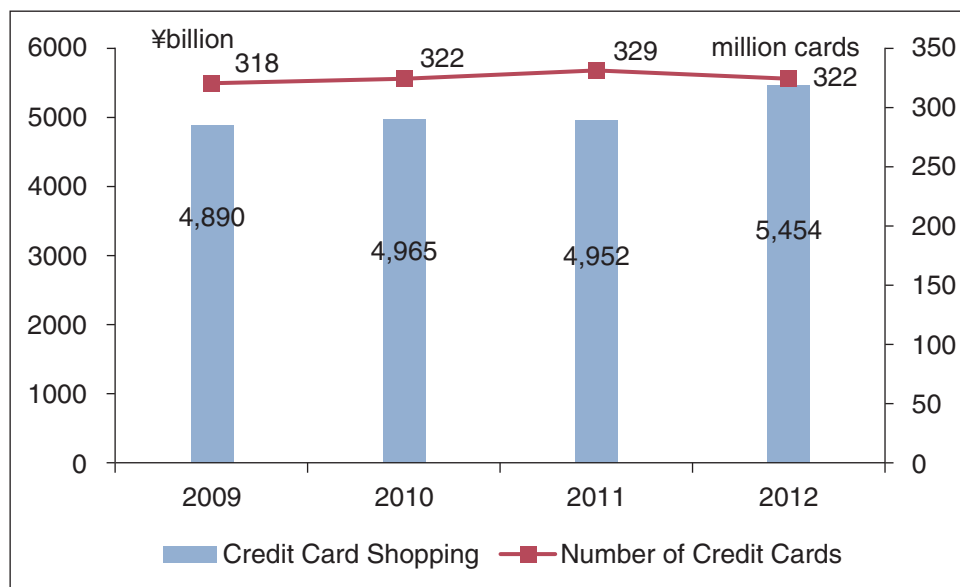
Source: Communication service survey report 2012 published by Ministry of Internal Affairs and Communications of Japan

## INDUSTRY OVERVIEW

### *Increase in Card Based Transactions*

According to Japan Consumer Credit Association, as of March 2012, 322 million credit cards were in issue, which represents approximately 3.1 cards issued per person. According to the result of a survey conducted by Ministry of Internal Affairs and Communications of Japan in 2012, 60% of the respondents answered that they use credit cards as a payment method for online shopping. The aggregate value of credit card shopping in Japan was ¥5,454 billion (approximately HK\$413.6 billion) in 2012 (10.1% growth from 2011).

**Number of Credit Cards and Aggregate Value of Credit Card Shopping in Japan**



Source: Japan Consumer Credit Association

### **Other Japanese Electronic Payment Service Growth Factors**

Revenue of online PSPs are also influenced by factors outside of online retailing such as the following:

#### *Increased Security Requirements*

The lack of consumer confidence in the security of electronic payments was reported in the OECD's 2012 "Report on Consumer Protection in Online and Mobile Payments" as one of the most important factors affecting the development of e-commerce. Various initiatives have been undertaken by regulators and companies to address this concern, such as the introduction by credit card associations of the 3-D Secure protocol, the use of encryption technologies and the use of fraud detection software.

#### *Diversification of Online Payment Services and Methods*

In order to expand revenue sources and outperform competitors, market participants are increasingly providing value-added and complementary services such as internet advertising technology, point of sale payment processing and loyalty and marketing services, in addition to their core electronic payment transaction fulfilment function. Diversification of accepted payment types

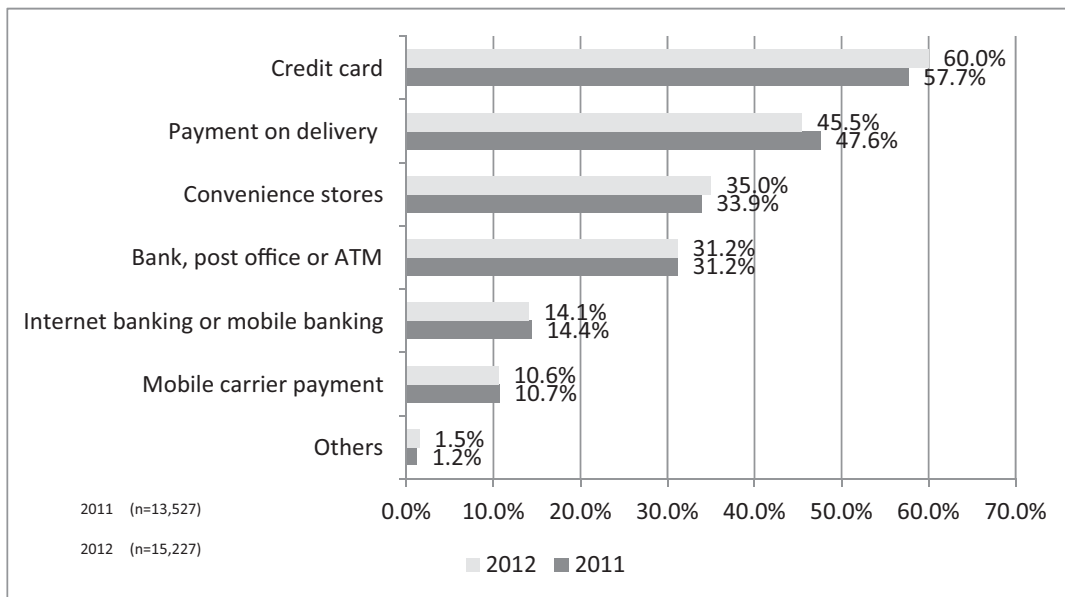


## INDUSTRY OVERVIEW

other than credit cards is also becoming a norm. An increasing number of online stores have begun to accept payments made at convenience stores, with electronic money (generally known as eMoney) cards such as Suica and Rakuten Edy (whereby funds can be stored in and paid out for purchases made online by entering card information, or by touching the card at a point of sale device for in-store transactions), and with reward points through point service operators such as Credit Saison.

The following diagram sets out the result of a survey conducted by the Ministry of Internal Affairs and Communications of Japan showing what kind of payment methods are used for online shopping:

**Online payment method for online shopping in Japan (multiple answers)**



Source: Communication service survey report 2012 published by Ministry of Internal Affairs and Communications of Japan

### ***Pressure on Per Transaction Fees***

Fees chargeable per transaction by online PSPs continue to decrease across the industry. The causes of such decrease include (i) competition between online PSPs and (ii) rapidly increasing volumes of online transactions being processed, which generate cost efficiencies such that cost savings can be partially passed on to customers (i.e. online merchants). The decrease in the per transaction fees and pressure on margins are to some extent offset by the diversification by online PSPs into higher margin products and services mentioned above.

## INDUSTRY OVERVIEW

### Competitive Environment in Japan

The leading online payment service companies in Japan, ranked by aggregate revenue, are as follows:

#### Market Share of Online Payment Service Companies in Japan

Company	Fiscal Year 2011 Actual		Fiscal Year 2012 Actual	
	Revenue (¥ million)	%	Revenue (¥ million)	%
A	21,200	20.3%	25,700	21.4%
econtext Asia <sup>(1)</sup>	11,275	10.8%	13,115 <sup>(2)</sup>	10.9%
B	9,000	8.6%	11,300	9.4%
C	11,400	10.9%	10,300	8.6%
D	8,000	7.7%	9,000	7.5%
Others	43,625	41.7%	50,785	42.3%
Total	104,500	100%	120,200	100%

Source: MIC Research Institute

Notes:

(1) econtext Asia includes aggregate revenue of VeriTrans and ECONTEXT.

(2) As defined by MIC Research Institute, fiscal year 2012 represents the 12 months ended June 30, 2013.

### THE ASIA PACIFIC ONLINE PAYMENT SERVICES MARKET

The Asia Pacific online payment services market is highly fragmented at present. Many of the regional markets are at an early stage of development with differing payment systems. However, when taken as a whole and owing to its relative population size, Asia Pacific has a promising potential to become the world's largest electronic payment service market.

Amongst the key drivers for future growth (similar to the shift seen towards the online retail market experienced globally) are the continuous growth of the internet penetration rate (which in Asia was the second lowest at 27.5% in June 2012) and the growth of non-cash payments.

#### Global Internet Penetration and Growth Statistics

World Regions	Population 2012 Est.	Internet Users Dec. 31, 2000	Internet Users 2012	Penetration (% Population)	Growth 2000-2012	Users % of Table
Africa	1,073,380,925	4,514,400	167,335,676	15.6%	3,606.7%	7.0%
Asia	3,922,066,987	114,304,000	1,076,681,059	27.5%	841.9%	44.8%
Europe	820,918,446	105,096,093	518,512,109	63.2%	393.4%	21.5%
Middle East	223,608,203	3,284,800	90,000,455	40.2%	2,639.9%	3.7%
North America	348,280,154	108,096,800	273,785,413	78.6%	153.3%	11.4%
Latin America / Caribbean	593,688,638	18,068,919	254,915,745	42.9%	1,310.8%	10.6%
Oceania / Australia	35,903,569	7,620,480	24,287,919	67.6%	218.7%	1.0%
<b>WORLD TOTAL</b>	<b>7,017,846,922</b>	<b>360,985,492</b>	<b>2,405,518,376</b>	<b>34.3%</b>	<b>566.4%</b>	<b>100.0</b>

Source: internetworldstats.com

## INDUSTRY OVERVIEW

In Asian countries excluding Japan, the regions that demonstrate the greatest potential are those countries that either have a large existing internet subscriber base or are anticipating rapid internet subscriber growth.

### Asia Pacific Statistics on Internet and Online Retail Growth

Country	Population 2012	Internet Users and Penetration 2012	Internet User Growth Rate 2000-2012 CAGR	Online Retail Market Size 2012 (US\$ million)	Online Retail Market Size 2017 (US\$ million)	Online Retail Growth Estimate 2012-2017 CAGR
China . . . . .	1,343,239,923	538,000,000 (40.1%)	30.3%	64,378	233,987	29.4%
India . . . . .	1,205,073,612	137,000,000 (11.4%)	31.8%	1,591	3,431	16.6%
Indonesia . . . . .	248,645,008	55,000,000 (22.1%)	31.8%	78	190	19.5%
South Korea . . . . .	48,860,500	40,329,660 (82.5%)	6.5%	23,761	29,304	4.3%
Philippines . . . . .	103,775,002	33,600,000 (32.4%)	26.5%	318	395	4.4%
Thailand . . . . .	67,091,089	20,100,000 (30.0%)	19.8%	619	869	7.0%
Malaysia . . . . .	29,179,952	17,723,000 (60.7%)	13.9%	298	548	12.9%

Source: Euromonitor, internetworldstats.com

### Asia Pacific Statistics on Consumer Payments and Aggregate Value of Credit Card Transactions

Country	Credit Card Transaction Value (US\$ billion) and % of Total Consumer Payments 2012	Credit Card Transaction Value (US\$ billion) and % of Total Consumer Payments 2017	Credit Card Transaction Value Growth Estimate 2012-2017 CAGR
China . . . . .	810.3 (21.4%)	1,452.0 (24.1%)	12.4%
India . . . . .	17.1 (1.7%)	32.0 (1.6%)	13.4%
Indonesia . . . . .	20.9 (4.6%)	35.1 (6.6%)	11.0%
South Korea . . . . .	423.5 (71.7%)	501.3 (70.8%)	3.4%
Philippines . . . . .	11.6 (8.0%)	21.1 (12.2%)	12.8%
Thailand . . . . .	37.0 (8.5%)	52.5 (8.5%)	7.3%
Malaysia . . . . .	31.5 (15.2%)	48.7 (17.0%)	9.1%

Source: Euromonitor

Growth in the Asia Pacific online payment services market is primarily driven by and closely related to the growth in the online retail market. Key growth factors of the online retail market, such as the increase in internet and wireless penetration, enhanced shopping experience and government support, are consistent factors across each market.

### China Online Retail Market

The key China specific drivers of the ongoing rapid growth in online retail market have been competitive prices caused by increasing numbers of manufacturers and retailers setting up online stores and broadening product ranges. Taobao.com dominates the online retail market with greater than 50% market share across all product categories according to Euromonitor.

Thanks to the growing popularity of internet retailing, third party payment operators recorded vigorous growth in China. By the end of August 2012, the People's Bank of China had issued 101 licenses to payment processors to enable development of electronic payment markets. In addition to leading players like Alipay, local pre-paid issuers such as Beijing Municipal Administration & Communications Card have also secured licenses.

## INDUSTRY OVERVIEW

---

### Indonesia Online Retail Market

With only 22.1% internet penetration in 2012, Indonesia is an early stage online retail market but is growing rapidly. Mobile commerce is an emerging trend in Indonesia due to extensive ownership of smartphones as well as the growing use of tablet computers.

Indonesia demonstrates strong potential with an online retail market size of US\$78 million (approximately HK\$608.4 million) in 2012 (35% growth from 2011). This is forecasted to grow at a CAGR of 19.5% from 2012 to 2017 and reach a value of US\$190 million (approximately HK\$1,482.0 million) in 2017 according to Euromonitor's Internet Retailing in Indonesia Report (April 2013).

Online retail growth is also supported by the recent establishment of the Indonesian E-Commerce Association (idEA), which aims to create a sustainable environment in online retail by enhancing the relationships between the Indonesian Government, other associations and industry players. The Indonesian Government has also demonstrated its support for the industry by creating Rancangan Peraturan Pemerintah (Government Regulation Plan) regarding electronic transactions and systems.

### SOURCES OF INFORMATION

We have commissioned MIC Research Institute to prepare the MIC Report. MIC Research Institute is a member of the Japan Marketing Research Association and has been publishing periodical reports on the Japanese online payment service industry since July 2009. The MIC Report was based on general economic data, surveys, historical market data and statistics published by Government. MIC Research Institute received a fee of JPY924,000 (approximately HK\$70,067), which we believe reflects the market rate for such reports.

MIC Research Institute adopted a methodology of both primary research and secondary research. Primary research was conducted through interviews with major market participants, the data from which was collected and used to cross check the consistency of relevant data and estimates. Secondary research involved reviewing public information published by market participants and government and MIC Research Institute's own industry knowledge. Forecast data in the MIC Report was based on historical data analyses of market participants, market data published by the Japanese government and a survey of the major market participants.

Our Directors and [●] are of the belief that MIC Research Institute has taken due care in collecting and reviewing data and that the basic assumptions contained in the MIC Report are factual, correct and not misleading. Our Directors are of the opinion, after taking all reasonable care, that there has been no adverse change in the market information since the date of the MIC Report or any of the other reports referred to in this section which may qualify, contradict or have an impact on the information in this section.