ROYAL GATE

News Release

October 15, 2013

ROYAL GATE Signs 10.0M USD Investment Agreement with Innovation Network Corporation of Japan

--B2B Payment Platform PAYGATE(R) Begins Global Roll-out Focused on Asia--

ROYAL GATE INC. (hereinafter referred to as "the Company") (Head Office: Minato-ku, Tokyo; CEO and Founder: Keiji Umemura), the developer and operator of B2B smart device payment platform PAYGATE(R), announced today that it has decided to receive an investment of $10.0M from Innovation Network Corporation of Japan (Head Office: Chiyoda-ku, Tokyo; President and CEO: Kimikazu Noumi).

This financing is positioned as the first investment in the Series A Financing targeting investments from venture capital firms and other investors, with an aim to bolster the Company's management base by receiving the continued support of Innovation Network Corporation of Japan and other existing shareholders, as well as fresh support from new investors. The funds procured through this investment will be used to enhance the Company's personnel, boost efforts to develop next-generation devices, and expand business overseas.

The Company has already created new opportunities for credit card use in Japan with the introduction of PAYGATE(R), a B2B smart device payment platform which provides enterprise users with a high level of security, flexible linkage, and a UI focused on usability. By increasing credit card use in Japan to a level on par with other advanced credit card using countries, the Company will cultivate a potential market exceeding 1,000 billion USD, and establish a new B2B payment platform. Leading transport companies, insurers, and telecom companies are currently considering new payment styles utilizing PAYGATE(R), which will contribute to making companies' payments simpler and more efficient.

Going forward, the Company will offer mobile POS systems free of charge and continue to link with other companies' POS systems (in the Japanese market). At the same time, the Company will provide a wallet service to consumers, enabling the accumulation of data on general consumers' purchasing trends, and the Company will pursue the utilization of big data. Furthermore, the Company will leverage the strength of having developed its own payment platform to create a PAYGATE OPEN Platform package, and launch it as an O2O (Online to Offline) platform, with an aim to also move into overseas markets.

Going forward, ROYAL GATE will expand globally and create a new payment culture.

【The Strengths of PAYGATE(R)】

ROYAL GATE INC. has developed proprietary payment devices, including Bluetooth credit card readers, earphone jack credit card readers, and Bluetooth multi-payment card readers, which are in compliance with domestic regulations in Japan's unique credit card payment culture, and which enable flexible connectivity. Moreover, the Company's card readers are the first in the industry to use a dual head system, which makes it possible to read both JIS1 and JIS2 type credit cards. The dual head also ensures consistent reading accuracy, which enterprises strongly desire, and the readers are able to link with a variety of systems to acquire point data and other information contained in JIS2 type credit cards. Precise card-reading keeps businesses from having to worry about swiping a customer's credit card over and over again in front of the customer. **※1**

To ensure security, the card readers employ the "DUKPT" key management scheme recommended under ANSI9.24 (DUKPT uses one time encryption keys generated for every payment, even if there are one million swipes). This scheme ensures that card data is sent and received securely. IPEKs (Initial PIN Encryption Keys) are managed in the Company's multi-media center in Japan, assuring secure key management for this payment system. **※2**

PAYGATE(R) features proprietary systems along the payment value chain, from payment terminals and payment applications, to payment execution centers. This allows customers to use the services of multiple credit card companies (acquirers). In addition, the proprietary development of each system allows enterprises to flexibly link with those systems that are necessary for their business. **※3**

Enterprises are the primary target users of PAYGATE(R). Enterprises require card readers that read data from both JIS1 and JIS2 type credit cards, and provide flexible system linking as well as advanced security features. In this way, PAYGATE(R) is creating new payment situations. In contrast, the single head, earphone jack-type smartphone payment service offered by other companies targets small businesses such as sole proprietors and small stores that in the past were unable to accept credit card payments, and is expanding a new payment market. **※4**

【About PAYGATE(R) OPEN Platform】

The PAYGATE OPEN Platform is a payment platform that combines 1.Smart device payments, 2.Mobile POS, and a 3.Consumer wallet service.

1. Smart device payment system PAYGATE(R) is connected to smart devices (the world's first system compatible with Windows 8.1, which is well-suited for businesses, as well as Android and iOS) through an earphone jack or Bluetooth, and enables payments in situations where previously only cash payments were possible. PAYGATE(R) is the only service in the smart device payment market that is compatible with these 3 platforms.
2. PAYGATE Mobile POS is a tablet POS application with no initial fee or monthly fee. Connecting the tablet with the bar code reader, card reader, and printer allows for fast payments.
3. PAYGATE Wallet is a wallet application for general consumers. Credit cards registered in advance can be used through a smartphone anytime.

Please refer to the official website below for details about PAYGATE(R).
http://www.paygate.ne.jp/en

【About the Third Party Allotment Recipient】

Company Name: Innovation Network Corporation of Japan
Address: 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Representative: CEO Kimikazu Noumi
URL: http://www.incj.co.jp/

【About the Company】

Company Name: ROYAL GATE INC.
Address: 4F Azabudai Hinoki Building, 3-1-5 Azabudai, Minato-ku, Tokyo
Sapporo Multimedia Center: 4F Sapporo Crest Building, 4-3, Nishi 4-chome, Kita 7-jo, Kita-ku, Sapporo-shi, Hokkaido
Kyoto Lab: 6F Office One Shijo Karasumaru, 480 Niwatoribokocho, Shimogyo-ku Kyoto-shi
Representative: CEO Keiji Umemura
URL: http://www.royalgate.co.jp
Business: IT consultation, Development by commissioning, Website design development, Server hosting, Online payment, SEO measures, Various ASP services (payment system, EC, SNS, CMS)

【Media inquiries】

Mr. Akira Fujii, Corporate Planning Department, ROYAL GATE INC..
e-mail: sales@royalgate.co.jp
Phone: 03-3568-4321
Fax: 03-3568-2040

ROYAL GATE

Appendix

※1 Technological Comparison between PAYGATE® Reader and Others

	PAYGATE® (Dual heads)	Other companies' readers (Single head)
Reader		
Reading accuracy	○	△ (May have to swipe multiple times)
Reading of points contained in JIS2	○	×
Security	○ (Fully ANSI 9.24 compliant DUKPT, key management within Japan)	△ (May not be fully ANSI 9.24 compliant, own single key)
Life-span	○ (500,000 times)	△ (10,000 – 40,000 times)

※2 PAYGATE(R) Security Measures

[PCI-DSS compliant design (global standard)]
The design is compliant with the credit card industry's global security standard PCI-DSS, which was developed by five of the major credit card companies, with broad compliance not only for data centers but also for applications and readers.

[Loss measures]
The serial numbers of the readers and the application IDs are stored on the payment server, and measures are in place to accept data only when the combination matches.

[Encryption]
Triple DES is used.

[Key management method]
ANSI 9.24 DUKPT is used. Secure encryption is achieved by generating a new one-time encryption key each time.

[Entering IPEK within Japan]
Designed in Japan, assembled in China, and activated in Japan. The reader is activated by entering the IPEK (Initial PIN Encryption Key) after importing it to Japan, and security is ensured by entering the IPEK for the first time in Japan after the customer's credit card screening.

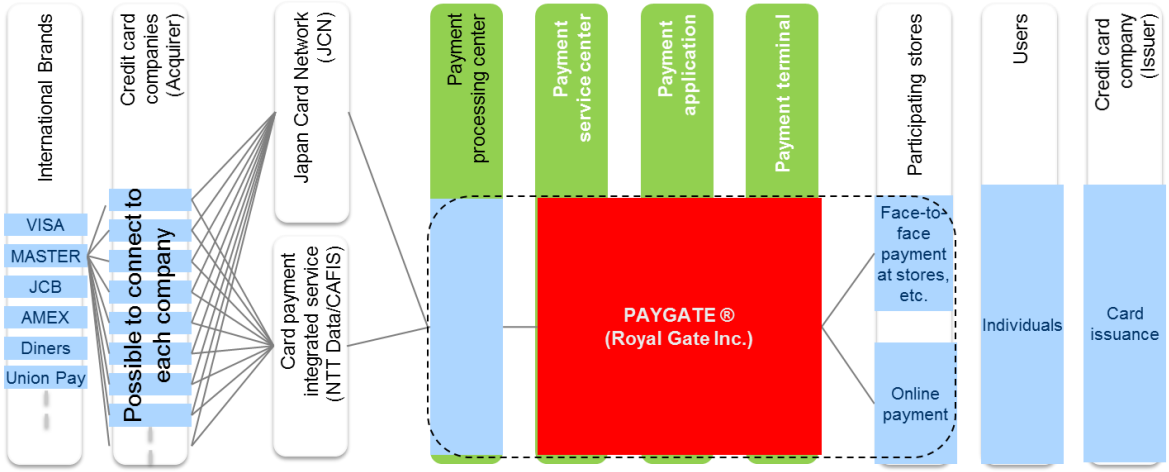
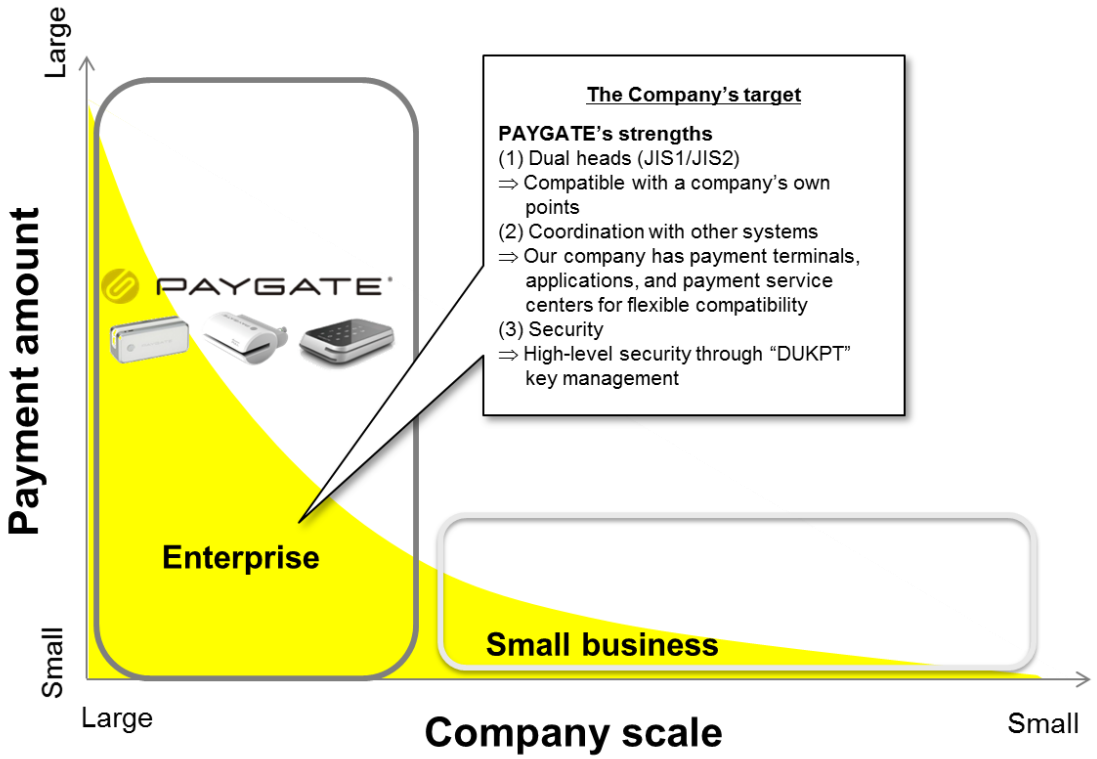
[Tamper resistant]
In order to protect against tampering for the purpose of forgery, if the reader is disassembled even once, it will be detected at the payment service center and the participating store will be notified.

[Time limit]
It is possible to set up the account so that payments will not be accepted outside of business hours or during regular holidays. When the account is issued, it is possible to set up so payment data that arrives outside of business hours will not be accepted, as well as to prevent payment during regular holidays (day of the week).

[Payment location restrictions]
PAYGATE maintains GPS information for payment areas. Relying on the accuracy of a smartphone's GPS, it is possible to set up so that payments will not be accepted when made outside a designated distance from the address registered for the participating store.

[Reader activation in Japan]
After certification of the participating store, the reader will be activated at the Company's call center, and a Bluetooth PIN will be set for each reader. Afterwards, the account will be securely issued by separately sending the information necessary for activating the reader, as well as separately sending the management screen information.

※3 Position of PAYGATE(R) in the Payment Value Chain



※4 PAYGATE(R) Target