

# **OnCard International Limited**

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## **Annual General Meeting**

**27 November 2012**

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# 1. Business Overview

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- ▶ OnCard International Limited is a leading provider of loyalty, reward and payment solutions across Asia Pacific, with a focus on growth markets – particularly China with its key business operations being SmartPASS & Buffet Club.
- ▶ SmartPASS is our prepaid card Joint Venture (50% ownership interest) operating principally in Shanghai. SmartPASS remains the pre-eminent, independent multi-merchant prepaid card company in China. This business generates significant float funds which are deposited as cash at bank, generating income in addition to net transactional income.
- ▶ Buffet Club is the Group's flagship loyalty program offering Dining Club memberships across Asia. Since establishing Buffet Club in mainland China in 2010, significant growth has been achieved demonstrated by over 200,000 memberships sold.

# China Markets

OnCard's Business Presence in China



**SUPER SmartPASS**

1. Shanghai
2. Nanjing

*The Buffet Club*

1. Shanghai
2. Beijing
3. Guangzhou
4. Shenzhen
5. Guilin
6. Ji'nan
7. Zhuhai
8. Dongguan
9. Dalian
10. Hangzhou
11. Sanya
12. Xiamen
13. Chongqing
14. Chengdu
15. Qingdao
16. Shenyang
17. Tianjin
18. Ningbo
19. Suzhou
20. Zhengzhou
21. Changsha
22. Wuhan
23. Tangshan
24. Haikou
25. Lanzhou
26. Fuzhou
27. Kunming
28. Changchun
29. Jiuzhaigou
30. Weihai
31. Shaoxing
32. Qiandaohu
33. Wenzhou
34. Changzhou

## 2. Key Achievements – FY 30 June 2012

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- ▶ Our profit after tax for the year was \$2.764 million (2011: \$1.273 million) consisting of \$2.100 million from continuing operations (2011: \$1.433 million) and \$0.664 million (2011: loss of \$0.160 million) related to the disposal of business operations in the year.
- ▶ The Group recorded a profit before income tax of \$2.465 million (2011: \$2.010 million) from continuing operations.
- ▶ Our group cash balances on hand are \$18.125 million plus \$4.699 million being our share of cash profits and equity retained in our SmartPASS joint venture. We shall continue to hold these cash reserves until the ongoing strategic review of the SmartPASS operation is completed.
- ▶ A net amount of \$1.164 million (2011: \$3.000 million) in prior year profits were repatriated during the year after withholding taxes of \$0.129 million (2011: \$0.287 million) were levied.
- ▶ Subsequent to balance date, OnCard repatriated and received additional profits of \$1.342 million (net of withholding taxes) from its joint venture investment in Shanghai Smart Service Co., Ltd.

### 3. Financial Highlights

▶ OnCard International – 30 June 2012

	Year Ended:			
	30 June 12	30 June 11		
	000's	000's		
Operating Income (continuing operations)	5,268	4,100	28.5%	↑
OnCard Non-operating income	104	233		
Investment & Equity Accounted Income	<u>4,516</u>	<u>5,049</u>	(10.5%)	↓
<b>Total Income</b>	<b>9,888</b>	<b>9,382</b>	<b>5.4%</b>	<b>↑</b>
Operating expenses	<u>(7,423)</u>	<u>(7,372)</u>	0.1%	↑
<b>Profit (loss) Before Income Tax</b>	<b>2,465</b>	<b>2,010</b>	<b>22.6%</b>	<b>↑</b>
Income Tax Expense / (Benefit)**	<u>(365)</u>	<u>(577)</u>	(36.7%)	↓
<b>Profit after Tax from Continuing Operations</b>	<b>2,100</b>	<b>1,433</b>	<b>46.5%</b>	<b>↑</b>
Profit/(loss) from Discontinued Operations	<u>664</u>	<u>(160)</u>		
<b>Net Profit for the Year</b>	<b><u>2,764</u></b>	<b><u>1,273</u></b>		

\*\*Note: included within income tax expense for 2012 were \$0.129million (2011: \$0.287million) related to withholding taxes levied on profits repatriated from SmartPASS. Net cash received after WHT \$1.164m (2011: \$3m).

## 4. Operations Update FY 30 June 2012

### Sale of BilltoBill & OnCard Shanxi:

- ▶ During the 2012 FY, OnCard successfully completed the sale of two business operations being the Group's China online payment business (BilltoBill) and the Group's wholly owned prepaid card company (OnCard Shanxi). The disposals were due to Chinese regulatory requirements for the payments businesses which precluded foreign ownership. An accounting profit of \$664k was recognised on the disposal of the operations in the period.
- ▶ Due to new regulatory requirements for the payments business to be licensed under the Non Bank Payments Industry (NBPI) regulations, the capital requirements under the new regulations would have far outweighed the expected future returns.

### E-commerce Platform:

- ▶ Our wholly owned rewards and payments system platform (CIS) has been significantly enhanced to enable it to operate in China. Websites and interfaces to mobile phones have been developed and marketing continues to major merchants in key cities.
- ▶ Development is underway to create a single platform that leverages our growing membership base with our technological assets to create a multi-faceted E-commerce platform.

## 5. China - Non Bank Payments Industry Update

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### Non Bank Payments Industry Regulations - Background

- ▶ The central bank of China announced in June 2010 new regulations governing the operations of Non-Bank Payment Institutions (NBPI) and these regulations will apply to our Prepaid Card and Payment operations.
- ▶ As noted in our 30 June 2011 annual report and updated as at 30 June 2012, our joint venture SmartPASS was requested on 24 August 2011 to lodge a licence application.
- ▶ The initial licence application package for SmartPASS was submitted to the China Central Bank (PBOC) on 29 August 2011.
- ▶ A key element of the SmartPASS licence application is a State Council ruling on foreign ownership. The timing of the announcement of foreign ownership rules is unknown. OnCard continues to work with the appropriate Chinese regulatory bodies on this matter.
- ▶ OnCard has sufficient funds at Group level to meet our capital requirements under the licensing process.



## 5. China - Non Bank Payments Industry Update (cont'd)

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### Non Bank Payments Industry Regulations – OnCard Compliance Action

- ▶ The PBOC has recently confirmed the prohibition of banks to issue prepaid cards in China. Recent press reports said that the PBOC enforced action against a large Chinese Bank for issuing prepaid cards which had signed agreements with 5 prepaid card companies in Shanghai & issued tens of millions of RMB of cards with 2 card companies. The bank was instructed to recover all of the cards issued.
- ▶ In April 2012 the PBOC relaxed the rules surrounding investment of float funds. Up to April 2012, funds were only able to be invested at call earning up to 1.5%. Subsequent to April 2012, funds can be invested in regulated term deposits for maximum 3 month period earning up to 2.86%.
- ▶ China took another step towards liberalising interest rates on 8 June 2012 when it cut borrowing costs for the first time since 2008 and loosened controls on banks' lending and deposit rates. It's the first time banks were able to offer savers deposit rates that are up to 10% higher than the benchmark.
- ▶ OnCard continues to work with the appropriate China regulatory bodies to pursue a successful outcome for its shareholders.

## 6. Business Operations - SmartPASS

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### SmartPASS – Card Sales & Float

- ▶ 50% joint venture established in December 2004 with SAND Bankcard Link (an ETPOS terminal network provider).
- ▶ In the five calendar years from 2007 to 2011, the cumulative average growth rate of sales and float have been approximately 20%. Both sales and float slowed in 2011 calendar year due to uncertainties surrounding the implementation of the PBOC regulations for NBPIs. Sales to date in the 2012 calendar year have shown a marked improvement over 2011 since April.
- ▶ Prepaid cards transactions continue rapid growth in China. According to the 2011 China Prepaid Card Industry Research Report 64% of Chinese consumers see prepaid cards as the most convenient substitute for cash.
- ▶ SmartPASS Cards can be used at over 9,000 merchants (2011: 8,000).

## 6. Business Operations - SmartPASS

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### SmartPASS – Forward Strategy

- ▶ The SmartPASS 3 year average float is ¥1,600 million (A\$250 million). SmartPASS future revenues are supported by:
  - low cost, stable deposit base;
  - expanding revenue pool as business matures (expired services, card fees and merchant fees);
  - Technological innovation of cards; and
  - Continued expansion of merchant base and agency sales.
  
- ▶ OnCard continues to evaluate expressions of interest for the SmartPASS business. The evaluation of the expressions of interest has been slowed by the regulatory processes that SmartPASS is currently managing with regard to obtaining a NBPI licence from the PBOC.

## 7. Business Operations - Buffet Club

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- ▶ Buffet Club is the Group's flagship loyalty program offering Dining Club memberships across Asia.
- ▶ In December 2010 OnCard signed a Buffet Club Purchase Cooperation Agreement with China Citic Bank (CITIC) formalising a milestone step for OnCard to significantly expand its Buffet Club business into mainland China. The CITIC deal is a substantial bulk purchase transaction.
- ▶ Since March 2011 in excess of 180,000 Buffet Club memberships have been issued to CITIC Gold and Platinum credit cardholders.
- ▶ In addition to the CITIC bulk deal, in September 2011 OnCard also entered into an agreement to cooperate in an outsourced callcentre arrangement managed by CITIC selling Buffet Club memberships.
- ▶ Additional call centres have also been activated in the past 6 months directly selling Buffet Club products into the China consumer marketplace through directly focused partnerships with China Corporates.
- ▶ Partnered with Enjoy Shanghai (lifestyle products provider) to issue 10,000 memberships to ICBC Bank.

## 7. Business Operations - Buffet Club

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- ▶ Buffet Club, which had previously developed its operations in Hong Kong, Singapore & Malaysia, continued to expand strongly into mainland China during the year to be able to offer recognition benefits to members. Currently in 100 hotels in 34 China cities, including Shanghai, Beijing, Guangzhou and Shenzhen.
- ▶ In the FY12 reporting period, Buffet Club China's operations contributed EBIT of \$0.976 million (2011: \$0.186 million) on gross sales revenues of \$2.604 million (2011: \$0.527 million).
- ▶ The value proposition of Buffet Club also lies in the range of products that are on offer and the ability to leverage the rapidly expanding membership base.
- ▶ The strategy involves: (1) increasing the range of products on offer to create a full range of lifestyle products specifically targeted at China's rapidly increasing middle class consumer group; and (2) utilising the E-commerce platform currently being developed to harness additional revenues sources from the rapidly expanding membership base.

## 7. Business Operations - Buffet Club

### OnCard Buffet Club - China Strategy

- ▶ OnCard has developed a comprehensive strategy to enhance its Buffet Club business throughout Asia and in particular China. The matrix below summarises the overall strategy:

	Existing Product	New Product
Existing Channel	<b>GEOGRAPHIC EXPANSION</b> – Expansion of Cities	<b>PRODUCT INNOVATION</b> – Increased range and access of products available. (Including Online Coupons)
New Sales Channel	<b>CHANNEL DEVELOPMENT</b> – Banks, Hotels, Callcentres & Airlines	<b>NEW PARTNERSHIPS</b> (eg China CITIC Bank)

## 8. China Economic Outlook

- ▶ Growth is likely to be domestically driven rather than export driven which is to OnCard's strategic benefit.
- ▶ HSBC are forecasting growth to rise to around 8.5% next year as the impact of stimulus measures shows up in the real economy, and the global economic environment starts to stabilise. The risks to growth in the global economy are weighing on the near term outlook, while domestic imbalances are adding to the potential for much slower growth further along the forecast horizon.
- ▶ HSBC provided the following key indicators for China showing real GDP picking up in 2013 from a significant dip in 2012 and consumer spending steadily increasing at over 9% pa for 2013 with consumer prices having eased recently.

<b>% Year (annual average)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012f</b>	<b>2013f</b>
Nominal GDP (RMB bn)	31,405	34,090	40,120	47,156	52,302	58,194
Real GDP	9.6	9.2	10.3	9.2	7.8	8.6
Consumer spending	8.9	8.0	9.5	9.4	9.1	9.3
Government consumption	12.0	12.5	16.0	15.0	13.0	11.0
Nominal retail sales	21.6	15.5	18.4	17.1	14.0	15.5
Consumer prices, year avg.	5.9	-0.7	3.3	5.4	2.9	3.1
Current account (% GDP)	9.4	5.8	4.4	3.0	2.0	1.5
Consolidated government balance (% GDP)	-0.8	-2.8	-1.7	-1.1	-1.9	-1.6
Foreign reserve (US\$bn)	1,946	2,399	2,850	3,181	3,450	3,600
3-month time deposit (%), year end	1.7	1.7	2.3	3.1	2.6	2.6
1-yr lending (%), year end	5.3	5.3	5.8	6.56	5.75	5.75

## 9. Strategic Focus Moving Forward

OnCard's strategic plan encompasses the growth and expansion across Asia Pacific of its synergistic Loyalty, Rewards and Payments business platforms including:

- ▶ SmartPASS Prepaid Cards:
  - Continue to grow and develop the business within China.
- ▶ Buffet Club Lifestyle Products:
  - Continue to expand growth into major cities across China and further develop key partnerships;
  - Organic expansion and innovation of product range including introduction of online coupons, luxury packages & enhanced membership offerings;
  - Seek acquisition targets that offer high quality products that are consistent with business plan of the Buffet Club lifestyle range.
- ▶ E-commerce Platform:
  - Create a single platform that leverages our growing membership base with our technological assets to create a multi-faceted E-commerce platform.

The company is profitable, cashflow positive, has no debt and is investing in the Asian region. We have an experienced and committed management team in place, a strong balance sheet with strong growth products & service capabilities in the fastest growing economy in the world.



# OnCard International Limited

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