

# 2016 Annual Report Traditional Therapy Clinics



# About Traditional Therapy Clinics Limited



Traditional Therapy Clinics (TTC or the Company) and its wholly owned entities (TTC Group or the Group) operates under the Fujiao brand and is the largest franchisor and owner of traditional therapeutic health and wellness clinics in China. TTC operates in 29 of China's 33 administrative divisions and engages 13,000 therapists across its network of 371 franchised and owned clinics. The Fujiao brand is highly recognised throughout China and a government- recognised industry leader, having received the prestigious Chinese Well-Known Trademark designation. TTC was listed on the Australian Securities Exchange on 3 September 2015 and has a corporate office in Sydney and head office in Chongqing, People's Republic of China. The group structure is shown below.



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# A Message from Geoff Ross, Chairman

## On behalf of the Board and Management of Traditional Therapy Clinics Limited ("TTC"), I am pleased to present the 2016 Annual Report.

During 2016, the Board and Management have successfully focused on continuing the expansion of traditional health and wellness clinics in China under the Fuqiao brand. The Chinese traditional medicine market sector, in which the company operates, continues to grow strongly and is actively supported and encouraged by the Chinese Government.

The TTC business growth during 2016 has been facilitated by the opening 38 new franchises and the acquisition of 7 new clinics. At the end of 2016, TTC operated 345 franchisees and 26 owned clinics making a total of 371 clinics covering 29 provinces in China.

This growth has been managed in parallel with a disciplined focus on the training and quality of therapists in both the franchises and owned clinics to ensure the recognised high client service level was maintained. Therapists are a fundamental component of the company's future growth and in the increasingly competitive Chinese labour environment the Company has significantly increased their payment commissions to ensure their retention.

The company has received back all of the money outlaid previously for a new head office which is no longer required and a better positioned alternative head office has now been purchased at a slightly lower cost in Chongqing.

The Board and management have worked cooperatively and intensively together on future plans for the business and are united in their desire to build a strong TTC business and deliver appropriate shareholder value.

### Financial Performance

TTC reported FY2016 revenue of \$58.4m (FY2015 \$44.8m) which is a 30% increase, a net profit decrease of 1%, an EBITDA increase of 7% and an increase in EBIT of 5%.

A more accurate picture of the business operations is gained by looking at the actual RMB performance of the business in China. This shows an increase in revenue of 38%, an increase in net profit of 4.5%, an increase in EBITDA of 12.8% and an increase in EBIT of 11.1%.

The company had cash of \$33.4m with no debt at year end.

These results in a competitive Chinese market sector are a credit to the focus and dedication of the Chinese management team.

### Dividends

A final dividend of 1.7 cents per share has been declared on 29 March 2017 by the Directors following the interim dividend of 1.7 cents paid last October.

### Outlook

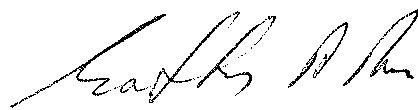
TTC plans to continue its strategy of expanding its franchise network and owned clinics to leverage the famous Fuqiao brand throughout China. In addition, the Board is considering synergistic enhancements to the business model to facilitate additional growth and better position the business in its market sector. While this is an attractive market sector in China it is also becoming increasingly competitive and the company is actively considering a number of strategies to better consolidate and protect its strong market position.

The Board has set the following targets for FY17;

- EBIT growth of 10%
- Expansion of franchised and owned clinics
- Implement an enhanced TTC business model for the traditional Chinese medicine sector
- Establishment of a new head office

On behalf of the Board, we would like to thank all our staff for their hard work and dedication over the last year and commitment to achieving the goals outlined in our prospectus.

The Board would also like to express its gratitude to you, our shareholders for your support and interest in TTC.



Geoff Ross  
Chairman



# A Message from Zhirong Hu, Managing Director

**Thank you for your investment in our Company. 2016 was a very big year for TTC and the Fuqiao group of companies in China.**

During the year, we have focused on business growth through the opening of new franchised clinics and increasing the number of owned clinics. In parallel with this we have worked very closely with the Board to research ways in which we can enhance our already successful business model to deliver increased business growth in a way which will deliver additional value to our shareholders.

The Fuqiao management team in Chongqing is highly motivated and united in its desire to expand and grow the business.

We ensure good communication by having regular board and committee meetings, telephone calls and face to face visits in Chongqing.

## *Operating Results*

We have also worked hard at growing the business and have successfully in 2016, opened 38 new franchised clinics and extended franchise contracts for 34 clinics.

We have also acquired 7 clinics from the existing franchise base which when added to our 19 existing clinics takes the number of clinics we now own to 26.

## *Planning for Growth*

To be able to successfully deliver on our growth strategy, we have focused on recruiting new therapists into the business for both the franchised and owned clinic networks.

In 2016 we recruited 3,229 new staff members (management and therapists) against the planned recruitment of 3,160

recruitments, exceeding our target by 2.2%.

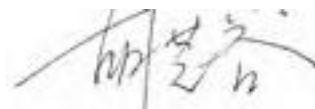
During 2016, we trained 8,043 staff (managers and therapists) compared to the planned 7,875, exceeding target by 2.1%, further enhancing our pool of professional skills and techniques.

## *Major Awards*

The Company has actively participated in social activities and competitions, a key strategy to engage and reward our staff and promote the TTC image and brand and ensure high standards of service quality. Some of our awards were:

Fuqiao (Chongqing)	<ul style="list-style-type: none"><li>• Passed ISO9001:2008 Recertification Test</li><li>• Best Company Award by IQNet</li><li>• Elected as Vice-President Unit of China Reflexology Association</li></ul>
Fuqiao brand	<ul style="list-style-type: none"><li>• Most favourable Chongqing Brand</li></ul>
Managing Director, Zhirong Hu	<ul style="list-style-type: none"><li>• Elected as Council Member of China Association of Acupuncture-Moxibustion</li><li>• Elected as Vice-President of Chongqing Tuina Massage Association</li></ul>
Tao Ke	<ul style="list-style-type: none"><li>• Jiulongpo District Skilled Talent Award</li></ul>

To all of our management and staff, our Board and our shareholders, thank you for your support of TTC and I look forward to reporting more TTC success in the future.



Zhirong Hu  
Managing Director

# Review of Operations and Financial Performance

## Company Overview

Fuqiao is the market leader within the Chinese therapeutic health and wellness clinic sector in the People's Republic of China.

The Fuqiao brand was established in 1998 in Chongqing, China. Since then, the Company has grown to a clinic network of 371 operating in 29 out of China's 33 administrative districts.

The Fuqiao brand is highly respected within China and has recently received the Chinese Well-Known Trademark designation from the State Administration for Industry Commerce.

The TTC business model consists of both franchised and owned clinics operating under the Fuqiao brand. Until 2012, the focus of the Group had been primarily on franchising, however given the higher absolute returns generated by owned clinics, TTC embarked on a strategy of clinic acquisition.

The Company is well placed for growth in this fragmented market and as the industry leader in China, is constantly evolving and setting the industry's best practice.

## Financial and Operational Performance

Trading revenue for the TTC Group reached A\$58.4 million in FY2016, 30% higher than the previous year. The results were mainly driven by:

- 38 new franchise agreements
- Full year impact of 8 new owned clinics added in FY2015
- Acquisition of 3 new clinics in the first half of FY2016
- Sales growth from owned clinics

EBITDA has increased by 7% from A\$25.9 million to A\$27.7 million.

TTC delivered a NPAT of A\$17 million, slightly lower than A\$17.1 million in FY2015. This result has been affected by:

- the increase in income tax expense of in FY2016 due to additional withholding tax arising from the two dividends paid out in FY2016 compared with the one dividend paid out in FY2015
- the unfavourable exchange rate movement

Looking at the actual performance in RMB currency (which is currency of the operating business), total revenue from clinics increased by RMB79 million or 38%, from RMB210 million to RMB289 million. EBITDA increased by 12.8% from RMB121 million to RMB136 million. And NPAT of RMB83.8 million was higher than last year by RMB 3.6 million or 4.5%.

# Review of Operations and Financial Performance (Cont.)

## Summary of Financial and Operational Results

TTC's financial and operational results are summarised below:

Highlights	FY16	FY15	Change%
	A\$ million	A\$ million	
Revenue	58.4	44.8	30%
Gross Profit	32.6	30.0	8%
Gross Margin	56%	67%	-16%
EBITDA	27.7	25.9	7%
EBITDA Margin	47%	58%	-19%
EBIT	25.9	24.7	5%
EBIT Margin	44%	55%	-20%
NPBT	26.0	24.8	5%
Tax Expense	(9.0)	(7.7)	17%
NPAT	17.0	17.1	-1%
EPS*	7.4 cents	15 cents	-50%*
Annual Dividend	3.4 cents	4.2 cents	-20%
IPO costs	0	1.0	-90%
Clinics			
Additional Franchises	38	36	6%
Number of Franchised Clinics	345	314	10%
Number of Owned Clinics	26	19	37%
Total Number of Clinics	371	333	11%

\*TTC was listed on ASX on 3 September 2015 and the weighted average number of shares used in the calculation of EPS in FY2015 was significantly less than that in FY2016.

## Review of Operations

The number of TTC owned Fuqiao branded therapy clinics continues to expand. Fuqiao is the largest traditional therapy provider in China.

During the 2016 financial year, the Group opened an additional 38 clinics throughout China, increasing the network by 11% to 371. We were very pleased to make a significant step forward in terms of our long-term strategy of owning a larger proportion of our branded clinics by purchasing 7 previously franchised clinics during the year. This resulted in a 37% increase in the number of clinics owned by the Group.

On 29 December 2016, following the receipt of full refund of RMB128 million (AUD23.62 million) previously paid for a previously contracted head office building, the Group entered into a contract to acquire a new head office building within Chongqing City's main financial district. The new head office building costs RMB92.53 million, which equates to AUD18.46 million at an exchange rate of 5.01 (AUD:RMB). The new building will be used for health management and services, major health-related professional skills and operations management training, aged care, cultural heritage display, and the Company's new flagship clinic. TTC plans to put the building into use by the end of the third quarter of 2017 and it will play a crucial role in the Company's rapid development and help forging win-win domestic and international strategic partnerships.

# Review of Operations and Financial Performance (Cont.)

## Industry Overview

The perceived economic slowdown in China although causing weakness in some sectors has not impacted the Chinese service in which TTC operates which continues to grow. Driving this growth is:

- The growing middle class in China
- Increased demand for services within the Chinese economy
- Increased urbanization
- Improved industry standards resulting from increased regulation

## Outlook

Looking ahead, the Company will continue its strategy of expanding its franchise network and owned clinics to leverage the famous Fuqiao brand throughout China. It is also considering enhancing its business model and achieving synergies to facilitate additional growth in its market sector. The company is actively considering a number of strategies to better consolidate and protect its strong market position.



# Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity, consisting of Traditional Therapy Clinics and the entities it controlled at the end of, or during the year ended 31 December 2016. Throughout the report, the consolidated entity is referred as the Group.

The directors of Traditional Therapy Clinics Limited during the financial year and up to the date of this report, are:

Geoff Ross (appointed 6 July 2016)	Chairman Independent, Non-executive Director
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Andrew Sneddon (resigned 4 August 2016)	Chairman Independent, Non-executive Director
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Zhirong Hu	Managing Director
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Sanzheng Zhang	Executive Director
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Christian Drysdale (appointed 6 July 2016)	Independent, Non-executive Director
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Jeffrey Fisher (resigned 6 July 2016)	Independent, Non-executive Director
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Glen Lees (resigned 6 July 2016)	Independent, Non-executive Director
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The company secretary is Mr Nicholas Ong who was appointed to the position of company secretary on 6 July 2016 replacing Ms Lisa Dalton. Mr Ong was a Principal Adviser at the Australian Securities Exchange in Perth and brings 12 years' experience in listing rules compliance and corporate governance. He has overseen the admission of over 100 companies to the official list of the ASX.

# Directors' Report



**Geoff Ross**  
(appointed 6 July 2016)

Chairman, Geoff Ross holds a Master of Science and Bachelor of Education degrees from the University of Melbourne. He has extensive business experience in the Australian, Chinese and Hong Kong markets. In Australia, he has founded and sponsored companies for two successful IPO's on the Australian Securities Exchange. His 31 years of working experience in China commenced in Dongguan in 1985 and since that time he created and managed a number of successful ventures in China serving the Chinese market along with a joint venture in Hong Kong with HSBC and PCCW. During this time, he has developed a strong understanding of Chinese culture and in particular Chinese business and management.

He is a passionate believer in the China - Australia relationship and the business opportunities that it is creating. He spends approximately 35% of each year working on the ground in China.

Role	Non-executive Director & Chairman
Expertise / Qualifications	Deep understanding of Chinese Australian cross border business
Location	Sydney, Australia
Independence or affiliations	Independent, Chairman of the TTC Group
Legal or disciplinary action	Nil
Other directorships	None



**Zhirong Hu**

Managing Director and Founding Shareholder, Ms Hu was born and raised in Chongqing. She holds certificate of completion in economic management major at Tsinghua University. She started the Fuqiao business with her then husband in 1998. She has been key in drafting industry standards for traditional therapy in China.

Ms Hu is also well connected socially and politically. She is the 3rd member of the Chongqing Committee of the Political Consultative Conference and the 4th Executive Director of Chongqing Acupuncture and Aoxibustion Association. She has won multiple awards nationally and locally; she was awarded "The Most Remarkable Business Woman of China" by the China General Chamber of Commerce, "Most Excellent Individual of contributing for the transfer, training and employment of the rural work force" by the Central Government Of China and "The Best Female Entrepreneur in Chongqing" by the provincial government.

Ms Hu is the Managing Director of the Group having formerly been its President.

Role	Managing Director
Expertise/ Qualifications	Economic Management, Franchising and Politics
Location	Chongqing, China
Independence or affiliations	Not independent, founding shareholder and Managing Director
Legal or disciplinary action	Nil
Insolvent companies	Nil
Other directorships	None

## Directors' Report (Continued)



**Sanzheng Zhang**

Executive Director and Chief Executive Officer, Mr Zhang, holds a bachelor degree from School of Central Committee of Communist Party of China and he is also an accountant. He has been involved in financial and business management for over 40 years. Previously he was vice executive officer and chief accountant in a PRC military enterprise before joining Fuqiao.

Mr Zhang has been working for Fuqiao for 15 years.

Role	Executive Director & CEO
Expertise / Qualifications	Bachelor degree and qualified general level accountant certification
Location	Chongqing, China
Independence or affiliations	Not independent, CEO of the TTC Group
Legal or disciplinary action	Nil
Other directorships	None



**Christian Drysdale**  
(appointed 6 July 2016)

Christian has over 25 years of experience in strategy and more than 18 years of experience in financial services. His financial services experience includes working with Macquarie Group, Bankers Trust, Family Offices and Chinese trust and securities companies.

While at Macquarie, Christian worked in Group strategy roles and also was responsible for equity derivatives when he was based in India. He was also involved in the identification, negotiation and structuring of joint ventures to expand the Group's operations across Asia.

Prior to working with Macquarie, Christian worked in management consulting advising companies such as Boral and Australia Post on growth strategies and decision analysis. He also worked on large-scale data analysis and technology projects with companies such as FedEx, General Motors, Polo Ralph Lauren, Bristol Myers Squibb, WorldCom and the London Stock Exchange. He has lived and worked in the US, UK, France, Hong Kong, India and China.

Christian has worked closely with a number of regulators across Asia on the formulation of regulations in financial services and has extensive knowledge of the legal, tax and capital requirements for entering and operating in countries across Asia.

Role	Non-executive Director Chairman, Audit and Risk Committee Chairman, Nomination and Remuneration Committee
Expertise / Qualifications	B.Ec – Operations Research and Economics, Macquarie University M.Comm – International business and strategy, University of NSW M.BLaw – International taxation and Chinese law, University of Sydney CPA – CPA Australia
Location	Sydney, Australia
Independence or affiliations	Independent
Legal or disciplinary action	Nil
Other directorships	None

# Directors' Report (Continued)

## Meetings of directors

The number of meetings of directors and committees held during the year ended 31 December 2016 and up to the date of this report, and the number of meetings attended by each director were:

Director	Full Board		Audit & Risk Committee		Nomination & Remuneration Committee	
	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>
Geoff Ross	3	3	1	1	1	1
Zhirong Hu	4	4	1	1	1	1
Sanzheng Zhang	4	4	-	-	-	-
Christian Drysdale	3	3	1	1	1	1
Andrew Sneddon	2	2	4	4	1	1
Jeff Fisher	2	2	4	4	1	1
Glen Lees	2	2	4	4	1	1

1. Held: represents the number of meetings held during the year the Director held office or was a member of the relevant committee.

## Principal activities

During the financial year, the principal continuing activities of the Group consisted of providing healthcare services in the People's Republic of China.

## Dividends

On 20 April 2016, the Company paid an unfranked final dividend for the year ending 31 December 2015 of 2.5 cents per ordinary share, amounting to \$5,519,300 with 100% being classified as conduit foreign income, sourced from subsidiaries of the Company.

On 31 October 2016, the Company paid an unfranked interim dividend for the half year ending 30 June 2016 of 1.7 cents per ordinary share, amounting to \$3,938,410 with 100% being classified as conduit foreign income, sourced from subsidiaries of the Company.

Since the end of the financial year, the directors have recommended the payment of an unfranked final ordinary dividend of 1.7 cents per fully paid share to be paid on 8 May 2017, with 100% being classified as conduit foreign income, sourced from subsidiaries of the Company.

## Review of operations

Please refer to pages 6 to 8 for a discussion on the operations and financial performance of the Group.

## Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

## Events since the end of the financial year

Apart from the subsequent payments on the purchase of 3 clinics as disclosed in note 27 and the final dividend referred to above, no matters or circumstances have arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

# Directors' Report (Continued)

## Likely developments and expected results of operations

The Company will continue to expand its franchised network in China under the Fuqiao brand and buy back existing franchises to become wholly owned clinics.

## Remuneration Report (Audited)

The Remuneration Report provides details of the remuneration of people who were considered Key Management Personnel of Traditional Therapy Clinics Limited and its related entities (Group) for the year ended 31 December 2016 (Reporting Period).

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001 (Cth).

### Content of Remuneration Report

The remuneration report is set out under the following headings:

1. Remuneration Governance	Page 13
2. Key Management Personnel	Page 14
3. Principles used to determine the nature and amount of remuneration	Page 14
4. Non-executive Directors' remuneration	Page 15
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### 1. Remuneration Governance

The following diagrammatic representation shows the framework the Board has in place to establish and review remuneration for KMP and employees of the Group:



# Directors' Report (Continued)

## 2. Key Management Personnel (KMP)

The KMP during the Reporting Period and who are referred to in this Remuneration Report are set out in the table below:

Category	Name	Position	Appointment Date <sup>1</sup>	Resignation Date
Non-Executive Directors	Mr Geoff Ross	Chairman, Independent, Non-Executive Director	6 July 2016	
	Mr Christian Drysdale	Independent, Non- Executive Director	6 July 2016	
	Mr Andrew Sneddon	Chairman, Independent, Non-Executive Director (Former)	24 February 2015	4 August 2016
	Mr Jeffrey Fisher	Independent, Non- Executive Director (Former)	24 February 2015	6 July 2016
	Mr Glen Lees	Independent, Non- Executive Director (Former)	24 February 2015	6 July 2016
Executive Directors	Ms Zhirong Hu	Managing Director	24 February 2015	-
	Mr Sanzheng Zhang	Chief Executive Officer and Executive Director	24 February 2015	-
Chinese Executive	Mr Ping Jian	Deputy Chief Executive Officer	24 February 2015	-
Australian Executive	Mr Peter Wong	Chief Financial Officer	21 July 2016	-
Australian Executive	Mr Zhonghan (John) Wu	Chief Financial Officer (Former)	1 March 2015	17 March 2016

1. Represents the date that the director was appointed to the Board or the date an Executive commenced an employment relationship with Traditional Therapy Clinics Limited and TTC (or a member of the Group) commenced remunerating them for their services as KMP.

## 3. Principles used to determine the nature and amount of remuneration

The principles used to determine the nature, amount and make-up of remuneration for KMP are:

- External Equity: Deliver market competitive reward packages necessary to attract and retain talented employees, taking into account the employee's geographical location;
- Performance & Reward Link: Make clear the line of sight between performance and reward to ensure that superior performance is recognised and rewarded, with a view to driving long-term growth and shareholder value;
- Internal Equity: Provide fair, consistent and internally equitable reward to appropriately compensate employees for their contributions and performance outcomes;
- Affordability and Sustainability: Manage the balance between reward funding and Company performance / financial outcomes; and
- Communication and Governance: Ensure a level of transparency and clarity in reward design and governance processes.

The Australian Executive participates in the Long-Term Incentive Plan. This has not been rolled out to Chinese KMP but there are plans to explore the implementation of the LTIP to some of the KMP in China, subject to advice from Chinese remuneration consultants and the Corporations Act and Listing Rules.

Remuneration for the Chinese based KMP is based on existing remuneration arrangements within the Chinese based



## Directors' Report (Continued)

operations before they were acquired by TTC. The Board did not believe that these reflected the work and effort involved in transitioning to a public company and stated in the Prospectus that the remuneration for Chinese based KMP would be increased. The Chinese based KMP advised the Board after listing that they did not want such significant pay increases given all other employees' remuneration continued to be based on existing remuneration arrangements and requested that their remuneration not be increased.

### 4. Non-executive Directors' remuneration

Non-executive Directors receive remuneration for undertaking their role in the form of an annual cash fee and the grant of Options to acquire shares in the Company. The Options to acquire shares in the Company are issued pursuant to the Employee Share Ownership Plan (ESOP). Details of the ESOP are outlined in the Company's website at [www.ttc-ltd.com](http://www.ttc-ltd.com).

The purpose and advantage of these Options is to provide a non-cash form of remuneration that further aligns the interests of Directors with shareholders and also promotes an ownership culture by all participating Directors. The remuneration for the Non-executive Directors reflects the responsibilities and time commitment necessary for the role, the amount of travel required and the time and diligence required in ensuring communication between the Chinese operating entities and the Australian parent is open, transparent and timely. The remuneration received by the Non-executive Directors during the year are based on the following criteria:

Role	Year	Annual Fee <sup>1</sup>	Number of Options <sup>2</sup>
Chairman	2016	\$160,000	5,400,000
	2015	\$200,000	3,300,000
Non-executive Director	2016	\$60,000	3,840,000
	2015	\$80,000	1,760,000

1. Includes statutory superannuation
2. Options vest over a 3-year period and exercisable subject to certain terms and conditions

Non-executive Directors may also be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as a Director of the Company. There are no retirement benefit schemes for Directors other than statutory superannuation contributions. The current aggregate non-executive director remuneration cap is set at \$1,000,000 per annum.

### 5. Chinese and Australian executives' remuneration and service agreement

Remuneration for the Chinese and Australian executives largely consists of annual fixed cash remuneration and other regulated benefits. There are no incentive plans (short or long term) in operation for the Chinese based and Australian based KMP. The implementation of incentive plans will be reviewed by the Board in the 2017 calendar year.

# Directors' Report (Continued)

## Managing Director's remuneration – Ms Zhirong Hu

Name	Ms Zhirong Hu
Role	Managing Director
Location	Chongqing, People's Republic of China
Agreement Commenced	24 February 2015, the date TTC was incorporated
Term of Agreement	Open ended
Remuneration	RMB 165,700 (A\$33,543)
Details	Ms Hu is Managing Director and an employee of the TTC Group. Ms Hu is not eligible to participate in the Company's ESOP or any short-term incentive plan adopted by the Board. Pursuant to Ms Hu's labour contract, Ms Hu may resign from her position by giving 6 months' notice in writing. Ms Hu's employment may be terminated by her employer (a member of the Group) by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Ms Hu's employment contract may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Ms Hu's labour contract (whether by resignation or termination), Ms Hu will be subject to a restraint of trade period of up to 12 months. The restraint of trade period may be reduced or eliminated in its entirety at the discretion of the Company.

## Executive Director and CEO's remuneration - Mr Sanzheng Zhang

Name	Mr Sanzheng Zhang
Role	Chief Executive Officer
Location	Chongqing, People's Republic of China
Commencement Date	24 February 2015, the date TTC was incorporated
Term of Agreement	Open ended
Remuneration	RMB 156,600 (A\$31,700)
Details	Mr Zhang is an employee and Executive Director of the TTC Group. Mr Zhang is eligible, but does not at this stage participate in the Company's ESOP and any short-term incentive plan adopted by the Board. For further details about the ESOP, refer to pages 19. Mr Zhang may resign from his position by giving 6 months' notice in writing. Mr Zhang's employment may also be terminated by his employer (a member of the Group) by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Mr Zhang's employment may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Mr Zhang's employment contract (whether by resignation or termination), Mr Zhang will be subject to a restraint of trade period of up to 12 months. The Company may elect to reduce the restraint of trade period, or eliminate the period in its entirety.

## Directors' Report (Continued)

### Deputy CEO's remuneration – Mr Ping Jian

Name	Mr Ping Jian
Role	Deputy Chief Executive Officer
Location	Chongqing, People's Republic of China
Commencement Date	24 February 2015, the date TTC was incorporated
Term of Agreement	Open ended
Remuneration	Salary RMB 149,513 (A\$30,266) Retirement RMB 11,271 (A\$2,282)
Details	Mr Jian is the Deputy Chief Executive Officer of the TTC Group. Mr Jian is eligible to participate in the Company's ESOP and any short-term incentive plan adopted by the Board. Mr Jian may terminate his labour contract by giving three months of notice in writing. Mr Jian's employer (a member of the Group) may terminate Mr Jian's employment contract by giving three months of notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Mr Jian's employment may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Mr Jian's employment contract (whether by resignation or termination by the company), Mr Jian will be subject to a restraint of trade period of up to 12 months. The Company may elect to reduce the restraint of trade period, or eliminate the period in its entirety.

### CFO's remuneration - Mr Peter Wong

Name	Mr Peter Wong
Role	Chief Financial Officer
Location	Sydney, Australia
Agreement Commenced	21 July 2016
Term of Agreement	Open ended
Remuneration	AUD\$80,000 per annum (inclusive of statutory superannuation)
Details	Mr Wong is employed as the Chief Financial Officer of the Group. Mr Wong may terminate his employment contract by giving one month's notice in writing. The Company may terminate Mr Wong's employment contract by giving one month's notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the Company may terminate Mr Wong's employment contract immediately by notice in writing and without payment in lieu of notice.
Long Term Incentive Plan (LTI Plan) - Performance Rights	None

# Directors' Report (Continued)

## 6. Non-Executive Directors' shareholding and interests in the Company

The relevant interest of each Non-Executive Director in the shares or options over shares issued by the Company and other related bodies corporate as notified by the Non-Executive Directors to the ASX in accordance with s.205G (1) Corporations Act 2001 (Cth), at the date of this report is as follows:

Year ended 31 December 2016		Balance 1 January 2016	Acquired	Granted as Remuneration <sup>1</sup>	Fair Value of Grant <sup>2</sup> \$	Disposed	Options Exercised	Total at date of Report	Total Vested/ Exercisable at date of Report
Geoff Ross	Shares	-	-	-	-	-	-	-	-
	Options <sup>1</sup>	-	-	5,400,000	171,703	-	-	5,400,000	900,000
Christian Drysdale	Shares	-	-	-	-	-	-	-	-
	Options <sup>1</sup>	-	-	3,840,000	122,100	-	-	3,840,000	640,000
Andrew Sneddon	Shares	408,000	19,751	-	-	-	-	427,751 <sup>3</sup>	-
	Options	3,300,000	-	-	-	-	-	3,300,000 <sup>3</sup>	3,064,286 <sup>4</sup>
Jeffrey Fisher	Shares	300,000	14,813	-	-	-	-	314,813 <sup>3</sup>	-
	Options	1,760,000	-	-	-	-	-	1,760,000 <sup>3</sup>	1,634,286 <sup>4</sup>
Glen Lees	Shares	300,000	14,813	-	-	-	-	314,813 <sup>3</sup>	-
	Options	1,760,000	-	-	-	-	-	1,760,000 <sup>3</sup>	1,634,286 <sup>4</sup>

1. Non-Executive Directors (or their eligible associated) received options as part of their remuneration. The options vest over a three-year period. Full terms and conditions of the options issued to the Non-Executive Directors during the year are set out on page 21.
2. The fair value of options granted as remuneration is the fair value calculated at the grant date. The amount is allocated to remuneration over the vesting period. For details on the valuation methodology used, for options and the assumptions made refer to Note 22.
3. For Mr Sneddon, Mr Fisher and Mr Glen Lees, the total reported at date of report reflects the number of shares and options held as at the date on which they ceased to hold the KMP position.
4. A shareholder resolution was passed at the EGM held on 21 October 2016 to permit the early vesting of 90% of the unvested options issued to the former non-executive directors.

Year ended 31 December 2015		Balance 1 January 2015	Acquired	Granted as Remuneration	Fair Value of Grant <sup>3</sup> \$	Disposed	Options Exercised	Total at date of last Report	Total Vested/ Exercisable At date of last Report
Andrew Sneddon	Shares <sup>1</sup>	-	408,000	-	-	-	-	408,000	-
	Options <sup>2</sup>	-	-	3,300,000	561,000	-	-	3,300,000	942,858
Jeffrey Fisher	Shares <sup>1</sup>	-	300,000	-	-	-	-	300,000	-
	Options <sup>2</sup>	-	-	1,760,000	299,200	-	-	1,760,000	502,858
Glen Lees	Shares <sup>1</sup>	-	300,000	-	-	-	-	300,000	-
	Options <sup>2</sup>	-	-	1,760,000	299,200	-	-	1,760,000	502,858

1. Non-executive Directors purchased shares as part of the IPO at the offer price of \$0.50 cents per share
2. Non-executive Directors (or their eligible associated) received options as part of their remuneration. The options vest over a three-year period. Full terms and conditions of the options are set out on page 22.
3. The fair value of options granted as remuneration is the fair value calculated at the grant date. The amount is allocated to remuneration over the vesting period. For details on the valuation methodology used, for options and the assumptions made refer to Note 22.

## 7. Executive Directors' and Executives' shareholding and interests in the Company

The number of shares and options held during the Reporting Period by executive directors and executives of the Group including their personally related parties is set out in the table below:

# Directors' Report (Continued)

Year ended 31 December 2016		Balance 1 January 2016	Acquired	Fair Value of Grant \$	Disposed	Performance Rights Exercised	Performance Rights Forfeited	Balance at date of Report
Zhirong Hu	Shares	136,974,296 <sup>1</sup>	-	-	-	-	-	136,974,296 <sup>1</sup>
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Sanzheng Zhang	Shares	9,443,214 <sup>1</sup>	-	-	-	-	-	9,443,214 <sup>1</sup>
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Ping Jian	Shares	8,870,898 <sup>1</sup>	-	-	-	-	-	8,870,898 <sup>1</sup>
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Zhonghan (John) Wu	Shares	23,000	-	-	-	-	-	23,000 <sup>3</sup>
	Options	-	-	-	-	-	-	-
	Rights	1,050,000	-	-	-	-	1,050,000 <sup>2</sup>	-

1. Zhirong Hu's, Sanzheng Zhang's and Ping Jian's Shares are indirectly owned through Hwazon Investment Limited, a company of which Zhirong Hu is a director and Zhirong Hu, Sanzheng Zhang and Ping Jian are shareholders. These shares were acquired prior to listing, as consideration for the sell down of the Chinese operating entities to TTC
2. Performance Rights issued to Mr Wu as part of remuneration under the Long-Term Incentive Plan. These rights were forfeited during the year as the performance conditions were not met.
3. For Mr Wu, the balance at date of report reflects the number of shares held as at the date on which he ceased to hold the KMP position.

Year ended 31 December 2015		Balance 1 January 2015	Acquired	Fair Value of Grant \$	Disposed	Performance Rights Exercised	Performance Rights Forfeited	Balance 31 December 2015
Zhirong Hu	Shares <sup>1</sup>	-	136,974,296 <sup>1</sup>	-	-	-	-	136,974,296
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Sanzheng Zhang	Shares <sup>1</sup>	-	9,443,214 <sup>1</sup>	-	-	-	-	9,443,214
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Ping Jian	Shares <sup>1</sup>	-	8,870,898 <sup>1</sup>	-	-	-	-	8,870,898
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Zhonghan (John) Wu	Shares <sup>2</sup>	-	71,000 <sup>2</sup>	-	48,000	-	-	23,000
	Options	-	-	-	-	-	-	-
	Rights <sup>3</sup>	-	1,050,000 <sup>3</sup>	525,000 <sup>4</sup>	-	-	-	1,050,000

1. Zhirong Hu's, Sanzheng Zhang's and Ping Jian's Shares are indirectly owned through Hwazon Investment Limited, a company of which Zhirong Hu is a director and Zhirong Hu, Sanzheng Zhang and Ping Jian are shareholders. These shares were acquired prior to listing, as consideration for the sell down of the Chinese operating entities to TTC
2. Includes 4,000 shares acquired by Mr Zhonghan Wu as part of the IPO at AUD\$0.50 cents per share
3. Performance Rights issued to Mr Wu as part of remuneration under the Long-Term Incentive Plan.
4. The fair value of performance rights granted as remuneration is the fair value calculated at the grant date. The amount is allocated to remuneration over the vesting period.

# Directors' Report (Continued)

## 8. KMP Remuneration Table

The following table of benefits and payments details, in respect to the Reporting Period, the components of remuneration for each member of the Key Management Personnel of the Company. Details of the nature and amount of each major element of remuneration of each Director and each relevant executive of the company are:

Name	Year	Short Term Benefits				Post em- ployment benefits	Termination Benefits	Long Term bene- fits	Share based benefits	Total	Proportion of Remuneration Performance Related
		Cash Salary & Fees	Cash bonus	Non-cash benefits	Total	Super		LSL	Options & Rights		
		AUD							%		
Non-Executive Directors											
Geoff Ross <sup>1</sup>	2016	54,795	-	-	54,795	5,205	-	-	171,703	231,703	0
	2015	-	-	-	-	-	-	-	-	-	0
Christian Drysdale <sup>1</sup>	2016	27,397			27,397	2,603			122,100	152,100	0
	2015	-	-	-	-	-	-	-	-	-	0
Andrew Sneddon <sup>2</sup>	2016	118,282	-	-	118,282	-	-	-	267,805	386,087	0
	2015	166,667	-	-	166,667	-	-	-	256,187	422,854	0
Jeffrey Fisher <sup>3</sup>	2016	37,729	-	-	37,729	3,582	-	-	142,830	184,141	0
	2015	60,883	-	-	60,883	5,784	-	-	136,633	203,300	0
Glen Lees <sup>3</sup>	2016	37,729	-	-	37,729	3,582	-	-	142,830	184,141	0
	2015	60,883	-	-	60,883	5,784	-	-	136,633	203,300	0
Executive Directors											
Zhirong Hu <sup>4</sup>	2016	33,543	-	-	33,543	-	-	-	-	33,543	0
	2015	29,807	-	-	29,807	993	-	-	-	30,800	0
Sanzheng Zhang <sup>4</sup>	2016	31,700	-	-	31,700	-	-	-	-	31,700	0
	2015	28,137	-	-	28,137	993	-	-	-	29,130	0
Directors Total	2016	341,175	-		341,175	14,972	-	-	847,268	1,203,415	0
	2015	346,377	-		346,377	13,554	-	-	529,453	889,384	0
Executives											
Ping Jian <sup>4</sup>	2016	30,266	-	-	30,266	2,282	-	-	-	32,548	0
	2015	26,724	-	-	26,724	2,125	-	-	-	28,849	0
Peter Wong <sup>5</sup>	2016	36,530	-	-	36,530	3,470	-	-	-	40,000	0
	2015	-	-	-	-	-	-	-	-	-	-
Zhonghan Wu <sup>6</sup>	2016	50,971	-	-	50,971	3,516	-	-	-	54,487	0
	2015	147,841	-	-	147,841	13,737	-	-	82,214	243,792	25%
KMP Total	2016	458,942	-	-	458,942	24,240	-	-	847,268	1,330,450	-
	2015	520,942	-	-	520,942	29,416	-	-	611,667	1,162,025	-

- Options granted to the new Non-Executive Directors during the year are explained on page 21. Fair value of options at date of grant is A\$0.111 cents per option. Refer to Note 22 for inputs into valuations of options.
- Andrew Sneddon is a resident of Australia and remunerated in AUD. Mr Sneddon is appointed under a service contract through Jalba Consulting Pty Ltd (Jalba). Salary and Fees represents the amount paid to Jalba who is accountable for the payment of superannuation for Mr Sneddon.



# Directors' Report (Continued)

Represents remuneration from 1 January 2016 to 4 August 2016.

3. Jeff Fisher and Glen Lees are residents of Australia and remunerated in AUD. Represents remuneration from 1 January 2016 to 6 July 2016.
4. Ms Hu, Mr Zhang and Mr Jian are residents of the People's Republic of China and are remunerated in RMB. The figures shown have been converted to AUD using an exchange rate (AUD:RMB) of 4.94.
5. Peter Wong is a resident of Australia and remunerated in AUD. Represents remuneration from 21 July 2016 (date of appointment) to 31 December 2016.
6. Zhonghan (John) Wu is a resident of Australia and remunerated in AUD. Represents remuneration from 1 January 2016 to 17 March 2016 (date of resignation).

## 9. Additional Information relating to KMP

### Non-Executive Directors' Options

Set out below is a summary of the terms and conditions of the Options issued to Non-Executive Directors during the reporting period:

Issue Date	21 October 2016	
Option holders	Non-Executive Directors (or their Eligible Associates)	
Number of Options issued	Participant	Number of Options
	Geoff Ross	5,400,000
	Christian Drysdale	3,840,000
Quotation	Options are not quoted on the ASX. The Company will make application to the ASX for Official Quotation of Shares issued on Options vesting and being exercised.	
Vesting Date	The Options vest and become capable of exercise in 6 equal tranches over a 3-year period as follows:	
	Tranche 1	1 January 2017 (vested at date of report)
	Tranche 2	1 July 2017
	Tranche 3	1 January 2018
	Tranche 4	1 July 2018
	Tranche 5	1 January 2019
	Tranche 6	1 July 2019
Issue price per Option	No amount is payable on issue of the Options	
Exercise Price	A\$0.65 per Option	
Expiry Date	Options that have vested expire at 5.00pm AEST, 5 years from the date that the Company is admitted to the Official List of the Australian Securities Exchange, and unvested Options expire on the earlier to occur of resignation, removal from office, death or permanent disablement, unless the Board determines otherwise.	
Exercise Period	Each Option that has vested may be exercised at any time from the Vesting Date to any time prior to the Expiry Date by delivery to the Company of a notice of exercise, accompanied by payment of the Exercise Price.	
Vesting Conditions	Participants must have remained as a Non-Executive Director up until and including the Vesting Date.	
Restrictions	Option holders are not entitled to assign, transfer, sell, encumber, hedge or otherwise deal with Options, except in accordance with the ESOP Rules and the Securities Trading Policy.	

# Directors' Report (Continued)

The terms and conditions of the Options issued to the former Non-Executive Directors during the financial year ended 31 December 2015 are summarized below:

Issue Date	31 August 2015	
Option holders	Non-Executive Directors (or their Eligible Associates)	
Number of Options issued	Participant	Number of Options
	Andrew Sneddon	3,300,000
	Glen Lees	1,760,000
	Jeff Fisher	1,760,000
Quotation	Options are not quoted on the ASX. The Company will make application to the ASX for Official Quotation of Shares issued on Options vesting and being exercised.	
Vesting Date	The Options vest and become capable of exercise in 7 equal tranches over a 3-year period as follows:	
	Tranche 1	31 August 2015 (fully vested)
	Tranche 2	28 February 2016 (fully vested)
	Tranche 3	28 August 2016 (90% early vested) *
	Tranche 4	28 February 2017 (90% early vested) *
	Tranche 5	28 August 2017 (90% early vested) *
	Tranche 6	28 February 2018 (90% early vested) *
	Tranche 7	28 August 2018 (90% early vested) *
* A shareholder resolution was passed at the EGM held on 21 October 2016 to permit the early vesting of 90% of the unvested options issued to the former Non-Executive directors.		
Issue price per Option	No amount is payable on issue of the Options	
Exercise Price	A\$0.75 per Option	
Expiry Date	Options that have vested expire at 5.00pm AEST, 5 years from the date that the Company is admitted to the Official List of the Australian Securities Exchange, and unvested Options expire on the earlier to occur of resignation, removal from office, death or permanent disablement, unless the Board determines otherwise.	
Exercise Period	Each Option that has vested may be exercised at any time from the Vesting Date to any time prior to the Expiry Date by delivery to the Company of a notice of exercise, accompanied by payment of the Exercise Price.	
Vesting Conditions	Participants must have remained as a Non-Executive Director up until and including the Vesting Date.	
Restrictions	Option holders are not entitled to assign, transfer, sell, encumber, hedge or otherwise deal with Options, except in accordance with the ESOP Rules and the Securities Trading Policy.	

## Loans from KMP

	KMP	FY2016 A\$	FY2015 A\$
Balance at 1 January	Ms Zhirong Hu	85,134	80,469
Advances from KMP – Mr Zhonghan Wu	Mr Zhonghan Wu	-	220,900
Repayment to KMP – Mr Zhonghan Wu	Mr Zhonghan Wu	-	(220,900)
Repayment to KMP – Ms Zhirong Hu	Ms Zhirong Hu	(84,104)	-
Impact of movements in foreign exchange		(1,030)	4,665
Balance at 31 December		0	85,134

# Directors' Report (Continued)

## *Voting on Remuneration Report*

TTC is yet to have its AGM after the year end and as such the remuneration report has not been subject to a vote by shareholders. The FY2015 remuneration report was approved by 98% of the votes cast at the last AGM held on 26 May 2016.

## **End of Remuneration Report (Audited)**

### **Indemnity and insurance of officers**

During the financial year, the Company paid a premium in respect of:

- (i) a contract insuring directors, secretaries and executive officers of the company and its controlled entities against a liability incurred as director, secretary or executive officer to the extent permitted by the Corporations Act 2001; and
- (ii) a contract insuring various parties including directors and officers for errors or omissions in the prospectus.

The contracts of insurance prohibit disclosure of the nature of the liability and the amount of the premiums.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Company or any of its controlled entities against a liability incurred as such an officer.

### **Indemnity and insurance of auditor**

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

### **Proceedings on behalf of the company**

No person has applied to the Court under relevant law for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 8 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on behalf of the auditor), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

On the advice of the audit committee, the directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the integrity and objectivity of the auditor; and

## Directors' Report (Continued)

- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

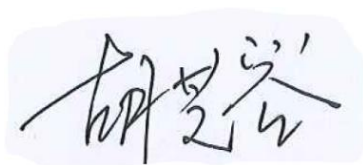
### Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report.

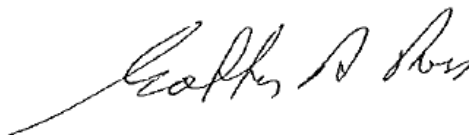
Amounts in this report have been rounded off to the nearest thousand dollars or in certain cases the nearest dollar.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 28.



**Zhirong Hu**  
Managing Director  
29 March 2017  
People's Republic of China



**Geoff Ross**  
Chairman  
29 March 2017  
Australia

# Other Shareholder Information

## Distribution of Shareholders

As at 8 March 2017, the Company had 478 shareholders and a total of 231,671,190 ordinary fully paid shares on issue. As at 8 March 2017, the distribution of shareholders was as follows:

Size of Holding	Number of Shareholders	Number of Ordinary Shares	% of Issued Capital
1 - 1,000	18	13,556	0.01
1,001 - 5,000	119	429,016	0.19
5,001 - 10,000	65	549,332	0.24
10,001 - 100,000	205	8,012,929	3.46
100,001 and over	71	222,666,357	96.10
TOTAL	478	231,671,190	100.00

The number of shareholdings holding less than a marketable parcel of shares as at 9 March 2017 was 3.

## Substantial Shareholders

Substantial Shareholders as at 8 March 2017 were as follows:

Shareholder	Number of Ordinary Shares	Percentage (%) of Total Issued Shares
Hwazon Investments Limited	155,288,408	67.03

## Voting Rights

Fully paid ordinary shares in the Company carry voting rights of one vote per share. Unlisted options and unlisted performance rights do not carry voting rights.

## Restricted Securities

190,772,000 fully paid ordinary shares in the Company are subject to voluntary escrow restrictions until 3 September 2017.

# Other Shareholder Information (Continued)

## Top 20 Shareholders (by number of ordinary shares)

Rank	Name	Units	% of Units
1.	HWAZON INVESTMENT LIMITED	155,288,408	67.03
2.	XIAOBEI HUANG	9,347,828	4.03
3.	VIRTUE LINK HOLDINGS LIMITED	9,157,056	3.95
4.	BEST SCENERY INVESTMENTS LIMITED	8,966,284	3.87
5.	UBS NOMINEES PTY LTD	5,475,598	2.36
6.	TALENT FELICITY LTD	4,578,528	1.98
7.	CITICORP NOMINEES PTY LIMITED	3,569,563	1.54
8.	ASIA GLORY TECHNOLOGY LIMITED	3,433,896	1.48
9.	J P MORGAN NOMINEES AUSTRALIA LIMITED	3,256,000	1.41
10.	MS SHIHONG CHEN	1,355,637	0.59
11.	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	1,333,948	0.58
12.	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,113,835	0.48
13.	MR HUI XU	1,000,000	0.43
14.	AUST EXECUTOR TRUSTEES LTD <HENROTH PTY LIMITED>	987,557	0.43
15.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	643,646	0.28
16.	BBY CHINA PTY LTD <BBY CHINA CAPITAL A/C>	633,080	0.27
17.	MR CHRISTOPHER EYLES	608,042	0.26
18.	MR CHIEN-CHIH KAO	589,488	0.25
19.	MR WENQING GUO	520,600	0.22
20.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	469,751	0.20
<b>TOTAL</b>	<b>TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES</b>	<b>212,328,745</b>	<b>91.65</b>
<b>TOTAL</b>	<b>REMAINING HOLDERS BALANCE</b>	<b>19,342,445</b>	<b>8.35</b>



# Corporate Directory

## Registered Office

Traditional Therapy Clinics Limited  
C/- Baker McKenzie  
Level 27, AMP Centre  
50 Bridge Street  
New South Wales 2000  
Australia  
ACN 603 792 712

Telephone (Sydney): +612 9225 0200  
Facsimile (Sydney): +61 2 9225 1595  
Telephone (Chongqing): + 86 2 3684 75559  
Email: [info@ttc-ltd.com](mailto:info@ttc-ltd.com)  
Website [www.ttc-ltd.com](http://www.ttc-ltd.com)

## Auditor

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco  
Western Australia 6008  
Australia

## Directors

Geoff Ross  
Zhirong Hu  
Sanzheng Zhang  
Christian Drysdale

## Company Secretary

Nicholas Ong

## Chongqing Head Office

Traditional Therapy Clinics Limited  
Chongqing Head Office  
Block A 4F, Da Gong Guan Wuhuan Building  
Jiulongpo District  
Chongqing  
People's Republic of China

Traditional Therapy Clinics Limited is listed on the Australian Stock Exchange. The Home Exchange is Sydney  
ASX Code: TTC

## Share Registry

Computershare Investor Services Pty Ltd  
117 Victoria Street  
West End  
Queensland 4101  
Australia

PO Box 2975  
Melbourne  
Victoria 3001  
Australia

Phone: (within Australia): 1300 552 270  
Phone (outside Australia): +61 (03) 9415 4000  
Website: [au.computershare.com](http://au.computershare.com)

**DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF TRADITIONAL THERAPY CLINICS LIMITED**

As lead auditor of Traditional Therapy Clinics Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Traditional Therapy Clinics Limited and the entities it controlled during the period.



**Neil Smith**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 29 March 2017

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

		<b>Consolidated</b>	
	<b>Notes</b>	<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
Revenue	4	58,421	44,799
Cost of revenue		(25,858)	(14,757)
Gross profit		32,563	30,042
Selling and distribution expenses	5	(673)	(497)
General and administrative expenses	5	(4,686)	(4,864)
Other expenses	5	(953)	(673)
Finance costs	5	(167)	(64)
Finance income	5	140	117
Foreign currency exchange gain/(loss)		(245)	719
<b>Profit before income tax</b>		<b>25,979</b>	<b>24,780</b>
Income tax expense	6	(9,028)	(7,653)
<b>Profit after income tax expense</b>		<b>16,951</b>	<b>17,127</b>
<b>Other comprehensive income</b>			
<i>Items that maybe reclassified subsequently to profit or loss</i>		-	-
Foreign currency translation		(2,811)	114
<b>Total comprehensive income</b>		<b>14,140</b>	<b>17,241</b>
<b>Profit for the year is attributable to:</b>			
Non-controlling interest		-	253
Owners of Traditional Therapy Clinics Limited		16,951	16,874
		<b>16,951</b>	<b>17,127</b>
<b>Total comprehensive income for the year is attributable to:</b>			
Non-controlling interest		-	350
Owners of Traditional Therapy Clinics Limited		14,140	16,891
		<b>14,140</b>	<b>17,241</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit for the year</b>			
Basic earnings per share	7	7.42	15
Diluted earnings per share	7	7.42	15

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>Consolidated</b>	
	<b>Notes</b>	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Cash and cash equivalents	10	33,385	30,741
Other receivable		90	13
Other assets	11	3,183	665
<b>Current assets</b>		<b>36,658</b>	<b>31,419</b>
Property, plant and equipment	12	28,475	35,452
Intangible assets	13	17,216	10,385
Deferred tax	14	569	861
<b>Non-current assets</b>		<b>46,260</b>	<b>46,698</b>
<b>Total assets</b>		<b>82,918</b>	<b>78,117</b>
Borrowings		-	85
Current tax liabilities		3,416	2,485
Other payables	15	3,126	5,454
Other liabilities		425	305
Deferred revenue		10,913	10,878
<b>Current liabilities</b>		<b>17,880</b>	<b>19,207</b>
Deferred revenue		7,650	12,382
<b>Non-current liabilities</b>		<b>7,650</b>	<b>12,382</b>
<b>Total liabilities</b>		<b>25,530</b>	<b>31,589</b>
<b>Net assets</b>		<b>57,388</b>	<b>46,528</b>
Contributed equity	16	23,112	17,888
Reserves	17	5,047	6,905
Retained earnings		29,229	21,735
<b>Total equity</b>		<b>57,388</b>	<b>46,528</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed equity	Surplus reserves	Foreign currency translation reserve	Option reserves	Retained earnings	Non- controlling interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated 2015</b>							
<b>Balance at 1 January 2015</b>	4,276	1,947	2,874	-	8,857	1,021	18,975
Profit for the year	-	-	-	-	16,874	253	17,127
Other comprehensive income for the year, net of tax	-	-	17	-	-	97	114
<b>Total comprehensive income for the year</b>	-	-	17	-	16,874	350	17,241
<b>Transaction with owners in their capacity as owners:</b>							
Appropriation to surplus reserve	-	1,123	-	-	(1,123)	-	-
Contributions of equity, net of transaction costs	13,392	-	-	-	-	-	13,392
Dividends paid (Note 9)	-	-	-	-	(3,753)	-	(3,753)
Acquisition of Non-controlling interest	220	133	138	-	880	(1,371)	-
Share-based payments expense	-	-	-	673	-	-	673
<b>Balance at 31 December 2015</b>	<b>17,888</b>	<b>3,203</b>	<b>3,029</b>	<b>673</b>	<b>21,735</b>	<b>-</b>	<b>46,528</b>
<b>Consolidated 2016</b>							
<b>Balance at 1 January 2016</b>	17,888	3,203	3,029	673	21,735	-	46,528
Profit for the year	-	-	-	-	16,951	-	16,951
Loss for the year, net of tax	-	-	(2,811)	-	-	-	(2,811)
<b>Total comprehensive income for the year</b>	-	-	(2,811)	-	16,951	-	14,140
<b>Transaction with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction costs	5,224	-	-	-	-	-	5,224
Share based payments	-	-	-	953	-	-	953
Dividends paid (Note 9)	-	-	-	-	(9,457)	-	(9,457)
<b>Balance at 31 December 2016</b>	<b>23,112</b>	<b>3,203</b>	<b>218</b>	<b>1,626</b>	<b>29,229</b>	<b>-</b>	<b>57,388</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS

		Consolidated	
	Notes	2016 \$'000	2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		55,080	39,962
Payments to suppliers and employees		(29,604)	(18,530)
Interest received		140	116
Income tax paid		(7,718)	(7,233)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	23	17,898	14,315
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of clinics, net of cash acquired	24	(15,095)	(8,756)
Payment for property, plant and equipment		(19,771)	-
Proceeds from refund of building purchase		25,885	-
<b>CASH USED IN INVESTING ACTIVITIES</b>		(8,981)	(8,756)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		5,183	15,000
Share issue transaction costs		(295)	(2,242)
Loan repayments made to shareholders		(82)	-
Dividends paid to company's owners		(9,123)	(3,753)
<b>CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>		(4,317)	9005
<b>NET INCREASE IN CASH</b>		4,600	14,564
<b>CASH AT BEGINNING OF YEAR</b>		30,741	15,158
Effect of exchange rate changes on cash and cash equivalents		(1,956)	1,019
<b>CASH AT YEAR END</b>	10	33,385	30,741

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# TRADITIONAL THERAPY CLINICS LIMITED FOR THE YEAR ENDED 31 DECEMBER 2016

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Corporate Information

The financial statements of Traditional Therapy Clinics Limited for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 29 March 2017 and covers the consolidated entity consisting of Traditional Therapy Clinics Limited and its subsidiaries.

The financial statements are presented in Australian dollars.

Traditional Therapy Clinics Limited is a company limited by shares incorporated in Australia and was established on 24 February 2015. The company's shares are publicly traded on the Australian Securities Exchange.

The principal activities of the Group are providing healthcare services in People's Republic of China.

### Note 2: Basis of preparation

#### a) Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on accruals basis and are based on historical costs and do not take into account changing money values.

#### New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial period beginning 1 January 2016 affected any of the amounts recognised in the current period or any prior period and is not likely to affect future periods.

#### b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Traditional Therapy Clinics Limited and its subsidiaries at 31 December 2016 ("the Group").

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Where shareholding is less than one-half of the voting rights, the Group is considered to have control over the entity when it can exercise power over more than one-half of its voting rights by virtue of an agreement with other shareholders.

#### Subsidiaries

The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Potential voting rights that are currently exercisable or convertible are considered when assessing control.

Consolidated financial statements include all the subsidiaries other than those acquired in business combinations involving entities under common control from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2: Basis of preparation (continued)**

**b) Basis of consolidation (continued)**

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for in the parent entity financial statements at cost.

**c) Foreign currency translation**

The functional currency of Traditional Therapy Clinics Limited is Australian dollars. The functional currency of the company's subsidiary, China Fuqiao Healthcare Industry (Hong Kong) Limited, is Hong Kong dollars and its other subsidiaries in mainland China is Chinese Yuan (Renminbi). The presentation currency is Australian dollars (A\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period.

Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

At the end of the reporting period, the assets and liabilities of the Group are translated into the presentation currency at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the period. All resulting exchange difference is recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

**d) Business Tax**

Until the introduction of the 6% Value-Added Tax (VAT) in May 2016, the Group's revenue from rendering services was subject to Business Tax at the applicable tax rate of 5%. Before the change, the revenue reported was the gross revenue. From May 2016 onwards, the revenue is reported net of VAT.

**e) Rounding of Amounts**

Amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

**f) Critical accounting estimates & judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

- 1) *Estimated impairment of tangible and other non-current assets – note 13*
- 2) *Impact of goodwill – note 24*

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2: Basis of preparation (continued)**

**g) Accounting standards issued, not yet effective**

The following new/amended accounting standards have been issued, but are not mandatory for financial year ended 31 December 2016. They have not been adopted in preparing the financial statements for the year ended 31 December 2016. The Group intends to apply these standards from the mandatory application date as indicated in the table below.

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 9 (issued December 2014)	Financial Instruments	<p><b>Classification and measurement</b></p> <p>AASB 9 amends the classification and measurement of financial assets:</p> <ul style="list-style-type: none"> <li>Financial assets will either be measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).</li> <li>Financial assets are measured at amortised cost or FVTOCI if certain restrictive conditions are met. All other financial assets are measured at FVTPL.</li> <li>All investments in equity instruments will be measured at fair value. For those investments in equity instruments that are not held for trading, there is an irrevocable election to present gains and losses in OCI. Dividends will be recognised in profit or loss.</li> </ul> <p>The following requirements have generally been carried forward unchanged from AASB 139 <i>Financial Instruments: Recognition and Measurement</i> into AASB 9:</p> <ul style="list-style-type: none"> <li>Classification and measurement of financial liabilities, and</li> <li>Derecognition requirements for financial assets and liabilities.</li> </ul> <p>However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.</p> <p><b>Impairment</b></p>	Annual reporting periods beginning on or after 1 January 2018	Adoption of AASB 9 is only mandatory for the year ending 31 December 2018. The Group is in the process of assessing the impact.

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 9 (issued December 2014) - cont	Financial Instruments	<p>The new impairment model in AASB 9 is now based on an 'expected loss' model rather than an 'incurred loss' model.</p> <p>A complex three stage model applies to debt instruments at amortised cost or at fair value through other comprehensive income for recognising impairment losses.</p> <p>A simplified impairment model applies to trade receivables and lease receivables with maturities that are less than 12 months.</p> <p>For trade receivables and lease receivables with maturity longer than 12 months, entities have a choice of applying the complex three stage model or the simplified model.</p> <p><b>Hedge accounting</b>  Under the new hedge accounting requirements:</p> <ul style="list-style-type: none"> <li>• The 80-125% highly effective threshold has been removed</li> <li>• Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable</li> <li>• An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure</li> <li>• When entities designate the intrinsic value of options, the initial time value is deferred in OCI and subsequent changes in time value are recognised in OCI</li> <li>• When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI</li> <li>• Net foreign exchange cash flow positions can qualify for hedge accounting.</li> </ul>		

**TRADITIONAL THERAPY CLINICS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 15 (issued December 2014)	Revenue from Contracts with Customers	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 <i>Revenue</i> .	Annual reporting periods beginning on or after 1 January 2018	Retrospective restatement requires that the cumulative effect of applying AASB 15 for the first time be recognised as an adjustment to the opening balance of retained earnings on 1 January 2018. This has not had any impact on the Group yet.
AASB 2016-3 (issued May 2016)	Amendments to Australian Accounting Standards - Clarifications to AASB 15	Clarifies AASB 15 application issues relating to: <ul style="list-style-type: none"> <li>• Identifying performance obligations</li> <li>• Principal vs. agent considerations</li> <li>• Licensing</li> <li>• Practical expedients.</li> </ul>	Annual reporting periods beginning on or after 1 January 2018	The Group is in the process of assessing the impact.
AASB 16 (issued February 2016)	Leases	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 <i>Leases</i> . It instead requires an entity to bring most leases into its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases.  There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.	Annual reporting periods beginning on or after 1 January 2019.	The Group has over \$16 million operating lease commitment. The Group is in the process of assessing the impact.

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2016-1 (issued Feb 2016)	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Tax Losses	<p>Clarifies four issues with respect to recognising deferred tax assets (DTAs) for unrealised tax losses:</p> <ul style="list-style-type: none"> <li>• If all other recognition criteria are met, DTAs must be recognised for the deductible temporary difference between the fair value and tax base on fixed rate debt instruments that are not deemed to be impaired.</li> <li>• Deductible temporary differences must be compared to taxable profits of the same type (e.g. capital or revenue profits) to determine whether there are sufficient taxable profits against which the deductible temporary differences can be utilised.</li> <li>• When comparing deductible temporary differences against the amount of future taxable profits, the calculation of future taxable profits must exclude tax deductions resulting from the reversal of those deductible temporary differences.</li> <li>• The estimate of future taxable profits can include recovery of certain assets at amounts more than their carrying amount if there is enough evidence that it is probable that the entity will recover the asset for more than its carrying amount. Examples would include: <ul style="list-style-type: none"> <li>- Property measured using cost model for which an external valuation has been conducted</li> <li>- Fixed rate debt instruments held to maturity.</li> </ul> </li> </ul>	Annual reporting periods beginning on or after 1 January 2017	This will have minor impact on the Group after its effective date, as the Group does not accrue material amount of deferred tax assets and has little unused tax loss.

**TRADITIONAL THERAPY CLINICS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2016-5 (issued July 2016)	Amendments to Australian Accounting Standards – Classification and Measurement of Share-Based Payment Transactions	<p>Clarifies three issues with respect to classification and measurement of share-based payment transactions as follows:</p> <p><b>Vesting and non-vesting conditions</b> The measurement of a cash-settled share-based payment liability takes into account vesting and non-vesting conditions in a similar manner to equity-settled transactions.</p> <p><b>Net settlement feature for withholding tax obligations</b> Tax laws in some countries require an entity to withhold an amount of equity instruments to settle the employee's withholding tax obligation, usually in cash. These transactions are classified as equity-settled in their entirety if, without the net settlement clause, it would have been classified as equity-settled, and the entity does not withhold instruments with a value that exceeds the employee's withholding tax obligation.</p> <p><b>Changing classifications from cash-settled to equity-settled</b> Guidance has been added to clarify that the difference between the carrying amount of the cash-settled liability, and the fair value of the equity instruments granted, is recognised immediately in profit or loss when a share-based payment transaction changes from being cash-settled, to being equity-settled.</p>	Annual reporting periods beginning on or after 1 January 2018	Due to the recent release of this standard, the Group has not yet made a detailed assessment of the impact of this standard

*Standards likely to have a disclosure impact only*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2016-2 (issued March 2016)	Amendments to Australian Accounting Standards - Disclosure initiative: - Amendments to AASB 107	Requires additional disclosures to enable users to evaluate changes in liabilities arising from financing activities, including both cash flow and non-cash flow changes.	Annual reporting periods beginning on or after 1 January 2017	These amendments affect presentation and disclosures only. Additional disclosures will be required for the first time during the year ended 31 December 2017 and comparatives will not be required in the first year.



**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*Standards Not Likely to Have Any Impact*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2014-5 (issued December 2014)	Amendments to Australian Accounting Standards arising from AASB 15	Makes consequential amendments to Australian Accounting Standards as a result of AASB 15 <i>Revenue from Contracts with Customers</i>	Annual reporting periods beginning on or after 1 January 2018	N/A

All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Group.

**Note 3: Segment Reporting**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group is managed primarily on the basis of the nature of the business activities. Operating segments are therefore determined on the same basis.

The following operating segments have been noted:

- Franchise Clinics: 345 Franchise Clinics (2015: 314) located in 29 administrative divisions in China as at 31 December 2016
- Owned Clinics: 26 Owned Clinics (2015: 19) located in Chongqing, Zhejiang, Sichuan, Jiangsu, Yunnan, Guizhou, Fujian, Guangxi, Guangdong and Hainan as at 31 December 2016

**Segment information**

Segment information provided to the board of directors for the year ended 31 December is as follows:

31 December 2016	Owned Clinics \$'000	Franchise Clinics \$'000	Unallocated \$'000	Total \$'000
<b>Treatment service revenue</b>	38,523	-	-	38,523
<b>Franchise revenue</b>				
Franchise fee	-	7,218	-	7,218
Training fee	-	4,949	-	4,949
Management fee	-	7,731	-	7,731
<b>Revenue</b>	38,523	19,898	-	58,421
<b>EBITDA</b>	12,421	19,431	(4,172)	27,680
31 December 2015	Owned Clinics \$'000	Franchise Clinics \$'000	Unallocated \$'000	Total \$'000
<b>Treatment service revenue</b>	24,365	-	-	24,365
<b>Franchise revenue</b>				
Franchise fee	-	7,660	-	7,660
Training fee	-	5,061	-	5,061
Management fee	-	7,713	-	7,713
<b>Revenue</b>	24,365	20,434	-	44,799
<b>EBITDA</b>	11,041	19,314	(4,446)	25,909

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3: Segment reporting (continued)**

**Other segment information**

The executive management committee monitors segment performance based on EBITDA. This measure excludes non-recurring expenditure such as restructuring costs, impairments and share-based payments as well as interest revenue and interest expense and unrealised gains/losses on financial instruments, which are considered part of the treasury function.

EBITDA reconciles to operating profit before income tax as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>EBITDA</b>	27,680	25,909
Finance income	140	117
Finance cost	(167)	(64)
Depreciation & amortisation	(1,674)	(1,182)
<b>Profit before income tax</b>	<b>25,979</b>	<b>24,780</b>

**Geographical information**

Segment revenues based on the geographical location of customers has not been disclosed, as the Group derives all of its revenue from its operation in P.R. China.

**Major customers**

The Group derives revenues from a wide range of customers. There is no concentration of revenue on a single external customer.

**Note 4: Revenue**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Treatment service revenue</b>	38,523	24,365
<b>Franchise revenue</b>		
Franchise Fee	7,218	7,660
Training fee	4,949	5,061
Management fee	7,731	7,713
<b>Revenue</b>	<b>58,421</b>	<b>44,799</b>

**Accounting Policy: Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

The following specific recognition criteria must also be met before revenue is recognised:

**Rendering of Services**

Revenue from rendering healthcare services is recognised at the time the service is rendered.

**Franchise and training fees**

The franchise and training fees are initially recognised as deferred revenue at the receipt of money. The deferred revenue is recognised as revenue over one or five years using straight-line method, being the current franchise life.

**Management fee**

Management fee is recognised as revenue when it is received at the end of each month, being when the service has been provided.

**TRADITIONAL THERAPY CLINICS LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5: Expenses**

Profit before income tax is derived at after taking the following into account:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
<b>Depreciation</b>		
Building	49	52
Fitting, furniture & equipment	1,304	906
Vehicles	85	161
Total depreciation	<u>1,438</u>	<u>1,119</u>
<b>Amortisation</b>		
Re-acquired rights	<u>236</u>	<u>65</u>
<b>Employee benefits expenses</b>		
Wages and salaries	17,330	8,562
Social security plans	2,266	1,410
Welfare expenses	596	391
Total employee benefits expenses	<u>20,192</u>	<u>10,363</u>
<b>Finance costs</b>		
Bank fee	164	62
Interest expense	3	2
Finance costs expensed	<u>167</u>	<u>64</u>
<b>Rental expenses relating to operating leases</b>		
Minimum lease payments	<u>2,754</u>	<u>1,228</u>
<b>IPO costs</b>		
One off costs associated with the IPO	<u>-</u>	<u>1004</u>
<b>Other expenses</b>		
Share-based payment expense	<u>953</u>	<u>673</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6: Income Tax Expenses**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Income tax expense</b>		
Current tax	8,428	7,473
Deferred tax - origination and reversal of temporary differences	292	180
Adjustment for current tax of prior years	308	-
Aggregate income tax expense	<u>9,028</u>	<u>7,653</u>
 <b>Reconciliation of the effective tax rate</b>		
Profit before income tax expense	25,979	24,780
Tax at the Australian tax rate of 30%	<u>7,794</u>	<u>7,434</u>
Add/(Less) tax effect of:		
Non-deductible expense	28	410
Non-deductible share-based payment expenses	286	202
Taxable intercompany revenue	607	1,317
Deductible intercompany expense	(101)	(128)
Utilisation of previously unrecognised tax losses	(250)	(1)
Deferred tax asset not recognised for losses	33	-
Difference in overseas tax rates	(1,304)	(1,581)
Withholding tax	1,628	-
Adjustment for current tax of prior periods	308	-
Total	<u>9,028</u>	<u>7,653</u>
 Effective tax rate	<u>35%</u>	<u>31%</u>

**Applicable income tax rate**

The applicable income tax rates in 2016 and 2015 for PRC subsidiaries are 25% and remain the same in the future.

**Current and deferred tax recognised in equity**

Aggregate current and deferred tax arising during the reporting period and not recognised in profit or loss but directly debited or credited equity:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Current tax: share issue costs	-	127
Deferred tax: share issue costs	-	507
	<u>-</u>	<u>634</u>

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in the statement of financial position for the following items:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Total unused tax losses at year-end	<u>524</u>	<u>1,523</u>
Potential benefit at 25% in P.R. China	<u>131</u>	<u>381</u>

A deferred tax asset has not been recognised in respect of the unused tax losses of the Group's subsidiaries in P.R. China arising from current year losses and prior years' losses because the entity will be generating business income in the foreseeable future therefore the tax losses are not expected to be realised. The tax losses in P.R. China can be carried forward for five consecutive years.

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**Note 6: Income tax expenses (continued)**

**Accounting Policy: Income tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business

combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.

**Note 7: Earnings per Share**

**Reconciliation of earnings used in calculating earnings per share**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Basic earnings per share</b>		
Profit after income tax attributable to owners of Traditional Therapy Clinics Limited used to calculate basic earnings per share:	16,951	16,874
<b>Diluted earnings per share</b>		
Profit after income tax attributable to owners of Traditional Therapy Clinics Limited used to calculate basic earnings per share:	16,951	16,874
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	228,413,762	115,963,605
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	228,413,762	115,963,605

Diluted earnings per share are equal to basic earnings per share as the options are out of the money as at 31 December 2016, these potential ordinary shares have not been included in the determination of dilutive earnings per share.

**Accounting Policy: Earnings per Share**

**Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of Traditional Therapy Clinics Limited, adjusted for the after-tax effect of preference dividends on preference shares classified as equity, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year. The weighted average number of issued shares outstanding during the financial year does not include shares issued as part of the Employee Share Loan Plan that are treated as in-substance options.

**Diluted earnings per share**

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of

**TRADITIONAL THERAPY CLINICS LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7: Earnings per share (continued)**

dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**Note 8: Auditor's Remuneration**

During the year, the following fees were paid or payable for services to BDO Audit (WA) Pty Ltd (BDO WA.), its related practices (also referred to hereafter as BDO WA), network firms of BDO and non BDO firms:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Audit services</b>		
BDO WA for audit or review of the financial statements for the entity or any entity in the Group	136,705	137,664
	<u>136,705</u>	<u>137,664</u>
<b>Audit related services</b>		
BDO Corporate Finance (WA) Pty Ltd for Investigating Accountant's report as part of IPO process of Traditional Therapy Clinics Limited	-	50,000
<b>Taxation services</b>		
BDO Corporate Tax (WA) Pty Ltd for Tax report as part of IPO process of Traditional Therapy Clinics Limited	-	15,000
	<u>136,705</u>	<u>202,664</u>

**Note 9: Dividends**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for year ended 31 December 2015 of 2.50 cents per fully paid share paid on 20 April 2016*	5,519	-
Interim dividend for year ended 31 December 2016 of 1.70 cents per fully paid share paid on 30 October 2016**	3,938	3,753
	<u>9,457</u>	<u>3,753</u>

\*On 20 April 2016, the Company paid an unfranked final dividend for the year ending 31 December 2015 of 2.5 cents per ordinary share, amounting to \$5,519,300 with 100% being classified as conduit foreign income, sourced from subsidiaries of the Company.

\*\*On 31 October 2016, the Company paid an unfranked interim dividend for the half year ending 30 June 2016 of 1.7 cents per ordinary share, amounting to \$3,938,410 with 100% being classified as conduit foreign income, sourced from subsidiaries of the Company.

In 2015 financial year the Company paid interim dividend for the half year ending 30 June 2015 of 1.7 cents per ordinary share.

**Accounting Policy: Dividends**

Provision is made for dividends declared and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 10: Cash & Cash Equivalents**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand	353	214
Cash at bank	33,032	28,527
Deposits at call	-	2,000
Cash and cash equivalents	<u>33,385</u>	<u>30,741</u>

Cash on hand is non-interest bearing. Cash at bank bears a floating interest rate at 0.30% (2015: 0.35%). Deposits at call bear fixed interest rates between 1.5 and 2.6%. These deposits have an average maturity of 82 days.

**Credit risk**

The maximum exposure to credit risk is the fair value of cash and cash equivalents. Refer to note 18 for more information relating to the risk management policy of the Group.

**Accounting Policy: Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Term deposits with maturity over three months include bank deposits with fixed terms over three months' period. For the purpose of the Consolidated Statement of Cash Flows, term deposits with maturity over three months are shown as cash flows from investing activities.

**Note 11: Other Assets**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	3,167	444
GST receivable	16	221
Total	<u>3,183</u>	<u>665</u>

Included in prepayments are the following key items:

The Group paid \$841,000 (2015: \$nil) for advertising in the whole year 2017 as part of its marketing operations.

The Group entered into contracts to purchase 3 clinics at the end of 2016 and paid deposits \$1,900,000 (2015: \$nil) equivalent to 45% of total purchase prices. The payments are classified as prepayments and the transactions have been completed at the date of this report (note 27).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 12: Property, Plant and Equipment**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Buildings-at cost	1,116	1,185
Less: Accumulated depreciation	(144)	(102)
	<u>972</u>	<u>1,083</u>
Furniture, fittings and equipment-at cost	13,066	10,113
Less: Accumulated depreciation	(4,027)	(2,914)
	<u>9,039</u>	<u>7,199</u>
Vehicles-at cost	1,161	1,232
Less: Accumulated depreciation	(1,098)	(1,076)
	<u>63</u>	<u>156</u>
Capital works in progress	<u>18,401</u>	<u>27,014</u>
Total property, plant and equipment-at cost	33,745	39,544
Less: Accumulated depreciation	(5,270)	(4,092)
	<u><u>28,475</u></u>	<u><u>35,452</u></u>

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year is as follows:

	<b>Building</b>	<b>Fitting, furniture &amp; equipment</b>	<b>Vehicles</b>	<b>Capital works in progress</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>31 December 2015</b>					
Opening net book value	1,072	5,097	298	25,534	32,001
Additions	-	2,733	-	-	2,733
Disposal	-	-	-	-	-
Depreciation charge	(52)	(906)	(161)	-	(1,119)
Foreign exchange translation	63	275	19	1,480	1,837
Closing net book value	<u>1,083</u>	<u>7,199</u>	<u>156</u>	<u>27,014</u>	<u>35,452</u>
<b>31 December 2016</b>					
Opening net book value	1,083	7,199	156	27,014	35,452
Additions	-	3,597	-	18,713	22,310
Disposal	-	-	-	-25,886	(25,886)
Depreciation charge	(49)	(1,304)	(85)	-	(1,438)
Foreign exchange translation	(62)	(453)	(8)	(1,440)	(1,963)
Closing net book value	<u>972</u>	<u>9,039</u>	<u>63</u>	<u>18,401</u>	<u>28,475</u>

**Accounting Policy: Property, plant and equipment**

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments. The depreciable amounts of all property, plant and equipment including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight-line basis over their estimated useful lives to the economic entity commencing from the time the assets are held ready for use.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 12: Property, Plant and Equipment (continued)**

Assets are depreciated over their useful lives as follows:

Buildings	22 years
Vehicles	4-10 years
Furniture, fittings and equipment	3-10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year that the item is derecognised.

**Note 13: Intangible Assets**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	16,850	9,906
Reacquired rights - at cost	658	543
Less: Accumulated amortisation	(292)	(64)
	366	479
	17,216	10,385

**Reconciliations**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goodwill</b>		
Balance at beginning of year	9,906	570
Acquisitions through business combinations (note 24)	7,437	9,644
Effect of movements in foreign exchange	(493)	(308)
Balance at end of period	16,850	9,906
<b>Reacquired rights</b>		
Balance at beginning of period	479	-
Acquisitions through business combinations (note 24)	145	555
Amortisation	(236)	(65)
Effect of movements in foreign exchange	(22)	(11)
Balance at end of period	366	479

Goodwill has been allocated to each cash generating unit (CGU), which is each clinic owned and operated by the Group.

**Accounting Policy: Intangible assets**

**Goodwill**

Goodwill is measured as described in note 24. Goodwill on acquisitions of subsidiaries is included in goodwill as intangible assets. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Note 13: Intangible assets (continued)*

Goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses on goodwill cannot be reversed.

#### **Reacquired rights**

Reacquired rights acquired as part of a business combination are recognised separately from goodwill and are carried at their fair value at date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the remaining contractual period of the Franchise Agreement in which the right was granted, which currently vary from 1 to 3 years.

#### **Significant Estimate: Impairment Review**

##### **Basis of review and methodology:**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other tangible and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units).

All goodwill acquired has been kept in individual clinics as separate cash-generating units (CGU), and it is at this level that the recoverable amount is tested.

The recoverable amount of goodwill and other intangible assets, including those with indefinite useful lives are determined based on value in use of each CGU through the application of a discounted cash flow methodology. The discounted cash flow method estimates the value of the CGU as being equal to the present value of the future cash flows which are expected to be derived from the CGU.

As required by AASB 136, each individual intangible asset is also reviewed for impairment.

##### **Estimates:**

Impairment test has been applied to each individual owned clinic as CGUs throughout the group. The key assumptions used in the impairment model are listed below:

- Discounted future cash flow model for 5 years and a terminal value
- Future cash flows have been determined using a forecasted EBITDA less allocated corporate overhead
- Growth in revenue and cost for each clinic has been conservatively estimated at 1% per year
- Future cash flow has been discounted at 7% pre-tax

At 31 December 2016, the directors and management performed an assessment of reasonably possible changes in key assumptions and did not identify any instances which could have a negative impact on the review result.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14: Non-Current Assets-Deferred Tax**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Property, plant and equipment	-	109
Deferred revenue	-	38
Accrued expenses	-	37
Receivables	-	16
Write off of prepayment	-	-
Tax losses	27	203
Share issue costs	542	676
Unrealised foreign currency exchange gain	-	(218)
Total deferred tax assets	569	861

**Movements in deferred tax assets**

	<b>Balance at beginning of period</b>	<b>(Charged)/ credited to profit or loss</b>	<b>Credit to equity</b>	<b>Effect of movements in foreign exchange</b>	<b>Balance at end of period</b>
<b>Consolidated</b>	<b>\$'000</b>	<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>
<b>31 December 2015</b>					
Property, plant and equipment	104	(1)	-	6	109
Deferred revenue	103	(72)	-	7	38
Accrued expenses	94	(88)	-	31	37
Receivables	-	16	-	-	16
Tax losses	-	203	-	-	203
Share issue costs	-	42	634	-	676
Unrealised foreign currency gain	-	(218)	-	-	(218)
Write-off prepayment	58	(62)	-	4	-
Total deferred tax assets	359	(180)	634	48	861

**Movements in deferred tax assets**

	<b>Balance at beginning of period</b>	<b>(Charged)/ credited to profit or loss</b>	<b>(Charged)/ credited to equity</b>	<b>Effect of movements in foreign exchange</b>	<b>Balance at end of period</b>
<b>Consolidated</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>31 December 2016</b>					
Property, plant and equipment	109	(109)	-	-	-
Deferred revenue	38	(38)	-	-	-
Accrued expenses	37	(37)	-	-	-
Receivables	16	(16)	-	-	-
Tax loss	203	(176)	-	-	27
IPO costs	676	(134)	-	-	542
Unrealised FX gain	(218)	218	-	-	-
Write off of prepayment	-	-	-	-	-
Total deferred tax assets	861	(292)	-	-	569

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 15: Other Payables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Salary payables	1,417	891
Accruals	80	222
Other payables	1,629	4,341
	<u>3,126</u>	<u>5,454</u>

**Note 16: Contributed Equity**

**(a) Share capital**

	<b>Consolidated</b>			
	<b>2016</b>		<b>2015</b>	
	<b>Shares</b>	<b>\$'000</b>	<b>Shares</b>	<b>\$'000</b>
Ordinary shares fully paid	231,671,190	23,112	220,772,000	17,888

\*The contributed equity represents the accumulated contributed equity within the subsidiaries. Before the group restructuring, ordinary shareholders participate in dividends and the proceeds on winding up of the Group in proportion to the percentage of shareholding instead of in proportion to the number of and the amounts paid on the shares held.

**(b) Movements in share capital**

<b>Details</b>	<b>Date</b>	<b>Number of shares</b>	<b>Issue price</b>	<b>\$'000</b>
At 1 January 2015		-		4,276
Acquisition of Non-controlling interest		-		220
Issued as part of the restructure	12 June 2015	190,772,000		-
Initial public offering on ASX	3 September 2015	30,000,000	\$0.50	15,000
Less: transaction costs arising on shares issued				(2,242)
Add: deferred tax arising from share issue costs				634
At 1 January 2016		220,772,000		17,888
Issued to participants in DRP Shortfall Placement	19 April 2016	9,949,678	\$0.5063	5,038
Issued to participants in DRP Shortfall Placement	20 April 2016	287,602	\$0.5063	146
Issued under DRP	20 April 2016	661,910	\$0.5063	335
Less: transaction costs arising on shares issued				(295)
At 31 December 2016		<u>231,671,190</u>		<u>23,112</u>

**Ordinary shares**

Before the group restructuring, ordinary shareholders participate in dividends and the proceeds on winding up of the Group in proportion to the percentage of shareholding. The voting rights of every ordinary shareholder are in accordance with the percentage of shareholding.

From 3 September 2015 when the Group was floated on the Australian Securities Exchange, ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and the amounts paid on the shares held. Every ordinary shareholder presents at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 16: Contributed Equity (continued)**

**Employee share ownership plan**

Details of the employee share ownership plan, including details of options and performance rights issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 22.

**(c) Capital risk management**

The Group considers its capital to comprise the equity as shown in the statement of financial position.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and dividends. In order to achieve this objective, it is the Group's policy to maintain strong cash balance to fund its growth and dividend payments.

There have been no significant changes to the Group's capital management objectives, policies, and processes in the year nor has there been any change in what the Group considers to be its capital.

**Accounting Policy: Contributed equity**

Contributions by shareholders are classified as equity. Costs directly attributable to capital raising are shown as a deduction from the equity proceeds, net of any income tax benefit.

**Note 17: Reserves**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Surplus reserve	3,203	3,203
Foreign currency translation reserve	218	3,029
Share-based payments reserve	1,626	673
	<u>5,047</u>	<u>6,905</u>

**Surplus reserves**

Surplus reserves comprise capital reserve of \$48,294 (2015: \$48,294) and the statutory surplus reserve of \$3,154,706 (2015: \$3,154,706).

*Statutory surplus reserve*

The Chinese subsidiaries are required to appropriate 10% of their profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders and be approved by its board of directors. The statutory reserve can be utilised to offset prior year's losses or to issue bonus shares. However, such statutory reserve must be maintained at a minimum of 25% of the entity's share capital after such issuance.

*Other surplus reserve*

Other surplus reserve includes the staff and workers' bonus and welfare fund, which is available to fund payments of special bonuses to staff and for collective welfare benefits, and the Enterprise Expansion Fund, which can be used to expand production.

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences on translation of the aggregated Group to the presentation currency.

**Share-based payments reserve**

The share-based payments reserve is used to recognise the fair value of options and performance rights issued to employees under the Traditional Therapy Clinics Limited Employee Share Ownership Plan. This reserve can be reclassified as retained earnings if options and performance rights lapse and subsequently be declared as a dividend.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 18: Financial Risk Management**

**General objectives, policies and processes**

Activities undertaken by the Group may expose the Group to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to its finance team, for designing and operating processes that ensure the effective implementation of the objectives and policies of the Group. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives monthly reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

At 31 December 2016 and 31 December 2015, the Group held the following financial instruments:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>		
<b>Current</b>		
Cash and cash equivalents	33,385	30,741
Other receivables	90	13
Cash and receivables	<u>33,475</u>	<u>30,754</u>
<b>Financial liabilities</b>		
<b>Current</b>		
Other payables	3,126	5,454
Interest free borrowings	-	85
Borrowings and payables	<u>3,126</u>	<u>5,539</u>

The fair value of these financial instruments is assumed to approximate their carrying value.

**(a) Credit risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

Receivable balances are monitored on an ongoing basis. To mitigate the credit risk associated with cash and cash equivalents, contracts are taken out only with reputable financial institutions.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of financial asset is the carrying amount of those assets, which is net of impairment losses. Refer to the summary of financial instruments table above for the total carrying amounts of financial assets.

**Concentration of credit exposure analysis**

The concentration of credit risk is monitored by the Group through geographical areas. The following tables show the maximum exposure to credit risk at reporting date by geographical areas.

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*Analysis of credit exposure by geographical areas*

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash and cash equivalents</b>		
China	32,987	28,702
Australia	398	2,039
<b>Other receivables</b>		
China	90	13
<b>Total cash and receivables</b>	<b>33,475</b>	<b>30,754</b>

*Concentration of risk by bank credit rating*

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash and cash equivalents</b>		
A-1	33,032	30,526
Unrated	353	215
<b>Total cash and cash equivalents</b>	<b>33,385</b>	<b>30,741</b>

**(b) Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments.

Prudent liquidity risk management implies maintaining sufficient cash to meet its financial commitments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Note 18: Financial risk management (continued)**

**(b) Liquidity risk (continued)**

**Maturity analysis**

<b>Contractual maturities of financial liabilities</b>	<b>Less than 6 months</b>	<b>6-12 months</b>	<b>Between 1 and 2 years</b>	<b>Total contractual cash flows</b>	<b>Carrying amount</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At 31 December 2016					
Other Payables	3,126	-	-	3,126	3,126
Interest free borrowings	-	-	-	-	-
	<b>3,126</b>	<b>-</b>	<b>-</b>	<b>3,126</b>	<b>3,126</b>
At 31 December 2015					
Other payables	5,454	-	-	5,454	5,454
Interest free borrowings	85	-	-	85	85
	<b>5,539</b>	<b>-</b>	<b>-</b>	<b>5,539</b>	<b>5,539</b>

**(c) Market risk**

Market risk arises from the use of interest bearing, and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 18: Financial Risk Management (continued)**

**(d) Interest rate risk**

The Group's exposure to market risk for changes in interest rates relates primarily to cash at bank.

The Group monitors its interest rate exposure continuously. The Group also considers on a continuous basis alternative financing opportunities and renewal of existing positions.

	2016		2015	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Cash and cash equivalents	0.35%	33,385	0.48%	30,741
Sensitivity analysis				
	2016		2015	
	\$'000	\$'000	\$'000	\$'000
	+ 0.1% (10 basis points)	- 0.1% (10 basis points)	+ 0.1% (10 basis points)	- 0.1% (10 basis points)
Cash and cash equivalents	33	(33)	31	(31)
Tax charge at 30% (2015: 30%)	(10)	10	(9)	9
After tax increase/(decrease)	23	(23)	22	(22)

**Accounting Policy: Financial instruments**

**Financial assets**

**Recognition and de-recognition**

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fairvalue and transaction costs are expensed in the profit or loss. Financial assets are derecognised when rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

**Note 18: Financial risk management (continued)**

**Classification**

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, reevaluates this designation at each financial year-end.

Financial assets of the Group are classified in two categories as following:

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

**Impairment of financial assets**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

***Note 18: Financial Risk Management (continued)***

**Accounting Policy: Fair value**

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**Note 19: Related Party Transactions**

**Parent entity and Ultimate parent entity**

Prior to the completion of the group restructuring China Fuqiao Healthcare Industry (Hong Kong) Limited was the parent entity and the ultimate parent entity.

The parent entity and the ultimate parent entity post to the group restructuring is Traditional Therapy Clinics Limited (TTC), a company limited by shares incorporated in Australia.

**Subsidiaries**

Interests in subsidiaries are set out in note 21.

**Key management personnel**

***(a) Compensation***

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Total KMP Compensation</b>		
Short-term employee benefits	458,942	520,942
Post-employment benefits	24,240	29,416
Share-based payments	847,268	611,667
	<u>1,330,450</u>	<u>1,162,025</u>

Detailed remuneration disclosed are provided in the remuneration report on pages 13 to 23.

**Accounting Policy: Employee benefit provisions**

The permanent Chinese employees of the Group participate in employee social security plans, including pension, medical insurance, unemployment insurance, maternity insurance and work related injury insurance, organized and administered by the governmental authorities. The Group has no other substantial commitments to employees.

Liabilities for wages and salaries and welfare expected to be settled wholly within 12 months after the end of the reporting period are recognised in respect of employees' services rendered up to the end of the reporting period and measured at amounts expected to be paid when the liabilities are settled. Liabilities for wages and salaries are included as part of other payables and liabilities for welfare are included as part of other liabilities.

Contributions are made by the Group to an employee welfare funds and are charged as expenses when incurred.

The Group recognises an expense and a liability for bonuses when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation.

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**Note 19: Related party transactions (continued)**

**(b) Receivable from and payable to related parties**

The following balances are outstanding at the reporting date in relation to transactions with KMP:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Loans from KMP</b>		
Opening – Ms Zhirong Hu	85,134	80,469
Advances from KMP – Mr Zhonghan Wu	-	220,900
Repayment to KMP – Ms Zhirong Hu	(84,104)	(220,900)
Effect of movements in foreign exchange	(1,030)	4,665
Balance at year end – Ms Zhirong Hu	-	85,134

The balance of payable to KMP is interest free and has no fixed repayment terms.

**Note 20: Parent Entity**

The following information relates to the parent entity Traditional Therapy Clinics Limited (2015: Traditional Therapy Clinics Limited). The information presented has been prepared using accounting policies that are consistent with those presented in Note 2.

	<b>Parent</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets	24,671	13,073
Non-current assets	405	-
<b>Total assets</b>	<b>25,076</b>	<b>13,073</b>
Current liabilities	4,656	7
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>4,656</b>	<b>7</b>
Contributed equity	18,745	13,521
Accumulated losses	(5)	(452)
Share based payment reserve	1,625	673
Foreign exchange transaction reserve	55	(676)
<b>Total equity</b>	<b>20,420</b>	<b>13,066</b>
Profit for the year	9,904	3,302
Other comprehensive income / (loss) for the year	731	(676)
<b>Total comprehensive income for the year</b>	<b>10,635</b>	<b>2,626</b>

**Contingent liabilities**

The parent entity had no contingent liabilities as at 31 December 2016 and 31 December 2015.

**Contractual commitments**

The parent entity had no contractual commitments as at 31 December 2016 and 31 December 2015.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 21: Subsidiaries**

**(a) Material subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2 (b).

Name of entity	Countries of incorporation	Equity holding		Principle Activity
		2016 %	2015 %	
China Fuqiao Healthcare Industry (Hong Kong) Limited	Hong Kong	100	100	Investment Holdings
Fuqiao (Chongqing) Holdings Co., Ltd.	P.R. China	100	100	Healthcare massage
*Chongqing WuhuanFuqiao Healthcare Co., Ltd.	P.R. China	100	100	Healthcare massage
*Chongqing Fuqiao Technical Training College	P.R. China	100	100	Training on healthcare massage
*Chongqing Fuqiao Healthcare Service Co., Ltd.	P.R. China	100	100	Healthcare massage

No ordinary shares are issued for Chinese subsidiaries. The voting rights of every ordinary shareholder are in accordance with the percentage of shareholding.

**Note 22: Share-Based Payments**

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Share-based payment expense recognised during the financial year</b>		
Options issued under employee share ownership plan	1,035	591
Performance rights issued/(reversed) under employee share ownership plan	(82)	82
	<u>953</u>	<u>673</u>

**Employee share ownership plan**

The Traditional Therapy Clinics Limited Employee Share Ownership Plan (ESOP) was approved on 26 May 2015. The ESOP provides flexibility to the Board to grant Awards to Employees or their Eligible Associate. The definition of employee under the Plan Rules includes any full time or permanent part time employee or officer or Director of the Company or any related body corporate of the Company.

An Award means, as applicable:

- an Options;
- a Performance Right;
- a Deferred Share Award;
- an Exempt Share Award; and
- a Limited Resource Loan Award

No deferred shares, exempt shares or limited resources loans were awarded in the current financial year under the ESOP. The information below outlines the options and the performance rights issued in details.

**(a) Options**

The Company's former Chairman, Mr. Andrew Sneddon, Non-executive Directors, Mr. Jeff Fisher and Mr. Glen Lees, and Company Secretary, Ms. Lisa Dalton, were to receive a proportion of their remuneration in the form of options for shares in the Company. In the last financial year, they were issued with the following number of options respectively:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 22: Share-Based Payments (continued)**

<b>Name</b>	<b>Number of options</b>
Andrew Sneddon	3,300,000
Jeff Fisher	1,760,000
Glen Lees	1,760,000
Lisa Dalton	792,000

According to the original terms of the Options, the Options vest and become capable of exercise in 7 equal tranches over a 3-year period as follows, as long as the participants have remained as a Non-Executive Director or Company Secretary (as the case may be) up until and including the vesting date. In accordance with the schedule and the terms, the first two tranches of the Options have been vested before their resignation.

To recognise the significant contribution of the original Directors and Company Secretary, the Company has amended the terms of the options so as to waive the vesting conditions and allow for 90% of the remaining unvested Options to be vested within this financial year. The total number of unvested options to be vested early is 4,893,426 which is fully expensed during the year.

The Non-executive Directors appointed during the year receive a proportion of their remuneration for the next three (3) years in the form of Options. The Options vest and become capable of exercise in 6 equal tranches over a 3-year period as follows:

<b>Name</b>	<b>Number of options</b>
Geoff Ross	5,400,000
Christian Drysdale	3,840,000

<b>Non-executive Directors</b>	<b>Vesting and exercise date</b>
Tranche 1	1 January 2017
Tranche 2	1 July 2017
Tranche 3	1 January 2018
Tranche 4	1 July 2018
Tranche 5	1 January 2019
Tranche 6	1 July 2019

The Company Secretary appointed during the year receive a proportion of his remuneration for the next two (2) years in the form of Options. The Options vest and become capable of exercise in 2 equal tranches over a 2-year period as follows:

<b>Name</b>	<b>Number of options</b>
Nicholas Ong	750,000

<b>Company Secretary</b>	<b>Vesting and exercise date</b>
Tranche 1	1 August 2017
Tranche 2	1 August 2018

Participants must have remained as a Non-executive Director or Company Secretary (as the case may be) up until and including the Vesting Date. Option holders are not entitled to assign, transfer, sell, encumber, hedge or otherwise deal with Options, except in accordance with the ESOP Rules and the Securities Trading Policy.

For the Non-executive Directors, options that have vested expire at 5.00pm AEST, 5 years from 21 October 2016. For the Company Secretary, options that have vested expire at 5.00 pm, AEST, 5 years from 6 July 2016. Unvested Options expire on the earlier to occur of resignation, removal from office, death or permanent disablement, unless the Board determines otherwise.

Each Option that has vested may be exercised at any time from the vesting date to any time prior to the expiry date by delivery to the company of a notice of exercise, accompanied by payment of the exercise price. When vesting occurs, each option can be exercised to purchase 1 ordinary share in Traditional Therapy Clinics Limited at exercise price set at grant date.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 22: Share-based payments (continued)**

Options granted carry no dividend or voting rights.

Details of options outstanding as part of the ESOP during the financial year are as follows:

Grant date	Exercise price	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Exercisable at end of year
21 October 2016	\$0.65	-	9,240,000	-	-	-	9,240,000	-
6 July 2016	\$0.75	-	750,000	-	-	-	750,000	-
31 August 2015	\$0.75	7,612,000	-	(543,711)	-	-	7,068,289	7,068,289

**Fair value of options granted**

The fair value of options granted during the year was 11.1 cents and 11.6 cents for the non-executive directors and company secretary respectively. The fair value at grant date was determined by an independent valuator using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution, the fact that the options are not tradeable. The inputs used for the Black-Scholes option pricing model for options granted during the year ended 31 December 2016 were as follows:

**Non-executive directors:**

- options are granted for no consideration, have a 5 year life and are exercisable in 6 equal tranches over a 3 year period
- grant date: 21 October 2016
- share price at grant date: \$ 0.505
- exercise price: \$0.65
- expected volatility: 56%
- expected dividend yield: 8.16%
- risk free rate: 1.86%

**Company secretary:**

- options are granted for no consideration, have a 5 year life and are exercisable in 2 equal tranches over a 2 year period
- grant date: 6 July 2016
- share price at grant date: \$0.570
- exercise price: \$0.75
- expected volatility: 54%
- expected dividend yield: 8.16%
- risk free rate: 1.59%

Expected volatility was determined based on the historic volatility (based on the remaining life of the option), adjusted for any expected changes to future volatility based on publicly available information.

**Accounting Policy: Share-Based Payments**

Share-based compensation benefits are provided to employees via the Traditional Therapy Clinics Limited Employee Share Ownership Plan.

The fair value of options and performance rights granted under the Traditional Therapy Clinics Limited Employee Share Ownership Plan are recognised as an employee benefit expense with a corresponding increase in equity (share-based payment reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and the performance rights. Fair value is determined by an independent valuator using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Traditional Therapy Clinics Limited ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors best estimate of the number of options and performance rights that will ultimately vest because of internal conditions of the options and performance rights, such as the employees having to remain with the company until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options and performance rights that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 22: Share-Based Payments (continued)**

Where the terms of options and performance rights are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options and performance rights are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options and performance rights are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options and performance rights are treated as if they were a modification.

**Note 23: Reconciliation of Profit after Income Tax to Net Cash from Operating Activities**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Operating profit after tax	16,951	17,127
Depreciation	1,438	1,119
Amortisation	236	65
Loss disposal of property, plant and equipment	-	-
Share-based payments	953	673
Unrealised foreign currency exchange (gain)/loss	245	(719)
<b>Change in Assets and Liabilities:</b>		
Increase in other receivables	(79)	(10)
(Increase)/decrease in other assets and prepayments	(643)	(22)
Decrease in deferred tax assets	321	115
Increase in current tax liabilities	990	304
Increase in other payables	610	153
Decrease in other liabilities	(3,122)	(4,490)
Net cash flow from operating activities	<u>17,898</u>	<u>14,315</u>

**Non-cash investing and financing activities**

The Group had no non-cash investing and financing activities as at 31 December 2016 and 31 December 2015.

**Note 24: Business Combinations**

**Acquisitions in the year ending 31 December 2016**

During May to December 2016 the Group acquired 100% of the ownership of 7 clinics from its franchised clinic base in line with its business strategy to grow its owned clinic network and diversify its revenue stream.

On 12 May 2016 Fuqiao (Chongqing) Holdings Co., Ltd. acquired 100% of the ownership of three health treatment service stores in Chongqing in China as its new branches. On 23 and 24 November 2016, Fuqiao (Chongqing) Holdings Co., Ltd. acquired 100% of the ownership of four health treatment service stores in Guizhou in China as its new branches. The acquisition of the seven new branches is part of a strategy to expand the business in other cities of China.

Details of the net assets acquired, goodwill and purchase consideration are as follows:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 24: Business Combinations (continued)**

	Shuijingli Clinic	Konggang Clinic	Longxi Clinic	Longli Clinic	Xingyi Clinic	Yulin Clinic	Yangshuo Clinic	Total
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	255	363	64	248	105	238	283	1,556
Prepayments	7	57	9	42	6	24	5	150
Net identifiable assets and liabilities	262	420	73	290	111	262	288	1,706
Reacquired rights	16	16	22	39	30	22	-	145
Goodwill	955	737	1,317	1,000	1,207	1,122	1,099	7,437
Net assets acquired	1,233	1,173	1,412	1,329	1,348	1,406	1,387	9,288

**Purchase consideration comprises:**

	Shuijingli cheng Clinic	Konggang Clinic	Longxi Clinic	Longli Clinic	Xingyi Clinic	Yulin Clinic	Yangshuo Clinic	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash paid	1,233	1,173	1,412	1,195	1,213	1,266	1,248	8,740
Unpaid consideration	-	-	-	133	135	141	139	548
Total consideration	1,233	1,173	1,412	1,328	1,348	1,407	1,387	9,288

**Revenue and profit contribution**

From the acquisition dates, the first 3 clinics have contributed \$2.5 million to revenue and \$533,310 to net profit of the Group. If the acquisition had occurred on 1 January 2016, the revenue of the Group would have been \$60.9 million and the net profit would have been \$17,483,976. The remaining 4 clinics were purchased near the end of 2016 and had no contribution to the group in this financial year.

**Acquisition-related costs**

No material acquisition related costs were incurred on the acquisition of the 7 clinics.

**Purchase consideration - cash outflow**

	2016 \$'000	2015 \$'000
Outflow of cash to acquire clinics, net of cash acquired		
Cash consideration paid	15,095*	8,756

\*Includes cash deposit of \$1,900,000 paid for the contract entered on 30 December 2016 to acquire 3 clinics as disclosed in note 11 and note 27.

**Accounting Policy: Business combinations**

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 24: Business Combinations (continued)**

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred.

Where the group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or joint venture, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Contingent consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured to fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the group's controlling shareholder's consolidated financial statements.

**Note 25: Contingent Liabilities**

The company had no contingent liabilities as at 31 December 2016 and 31 December 2015.

**Note 26: Commitments**

**Capital commitments**

The remaining balances of the purchases of 3 clinics in late December 2016 are to be paid in 2017 as follows:

Clinics	Due in 2017 \$'000
Jingkai clinic	766
Jinyang clinic	787
Huairan clinic	798
Total	<u>2,351</u>

The group initiated renovation of some clinics, for which \$925,092 is expected to be paid in 2017.

**Operating lease commitments**

Operating lease commitments includes contracted amounts for various retail outlets, warehouses, offices and plant and equipment under non-cancellable operating leases expiring within one to ten years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 26: Commitments (continued)**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Operating lease commitments</b>		
Within one year	3,382	2,661
One to five years	9,397	7,891
More than five years	3,271	2,564
<b>Total</b>	<b>16,050</b>	<b>13,116</b>

**Accounting Policy: Operating leases**

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

**Note 27: Events after the End of the Reporting Period**

Subsequent to the end of the financial period, the directors have recommended the payment of an unfranked final dividend of \$3,938,410 (1.7 cents per fully paid share) to be paid at 8 May 2017.

Apart from the payments on the purchase of 3 clinics as disclosed in note 26, of which control were obtained in March 2017, and the final dividend referred to above, no other matter or circumstance has arisen since 31 December 2016 that has significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 28: Company Details**

<b>Registered Office</b>	C/- Baker & McKenzie Level 27 AMP Centre 50 Bridge Street, Sydney NSW 2000 Australia
<b>Principal Places of Business</b>	Block A 4F, Da Gong Guan Wuhuan Building Jiulongpo District Chongqing People's Republic of China

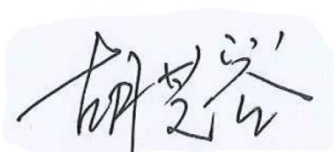
## DIRECTORS' DECLARATION

In the opinion of the Directors of Traditional Therapy Clinics Limited ('the Company'):

1. The financial statements and notes of Traditional Therapy Clinics Limited for the financial year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Australia Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and
  - (b) giving a true and fair view of the consolidated entity's financial position as 31 December 2016 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements and explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Directors.

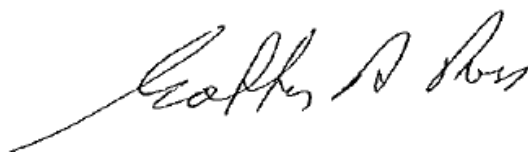
On behalf of the Directors



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Zhirong Hu  
Managing Director

29 March 2017  
People's Republic of China



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Geoff Ross  
Chairman

29 March 2017  
Australia

## INDEPENDENT AUDITOR'S REPORT

To the members of Traditional Therapy Clinics Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Traditional Therapy Clinics Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Related Party Transactions

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The entity has undertaken transactions during the year that include acquiring franchise rights, the purchase of a new head office and loans with directors. There is a risk that transactions including those above may involve related parties and that related party transactions are not disclosed in-line with Australian Accounting Standards.</p> <p>The entity's disclosure of related party transactions is included in Note 19.</p>	<p>We evaluated the entity's procedures around the identification and disclosure of related party transactions. Our evaluation included the following procedures:</p> <ul style="list-style-type: none"> <li>• We enquired with management as to their processes for identifying related parties and recording transactions undertaken with related parties.</li> <li>• We performed a search of parties to a sample of significant transactions entered into by the entity during the year and compared this to management's list of identified related parties..</li> <li>• For related party transactions identified by management, we assessed management's evaluation that the transactions are on an arm's length basis by comparing the terms and conditions to those available to non-related parties.</li> <li>• We obtained written confirmation from all key management personnel as to their declaration of interest in any related party relationships and assessed their responses to the related party information provided to us by management.</li> </ul>

## Revenue recognition -cut off between revenue and deferred revenue

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Cash is received upfront from clinics for franchise fees and training fees, with revenue deferred by the entity until the services are provided. Deferred revenue is recognised as revenue over the period the services are provided under the straight-line method.</p> <p>There is a risk that revenue is not recognised in the correct period.</p> <p>The entity's accounting policy for revenue is disclosed Note 4.</p>	<p>Our procedures on revenue recognition and deferred revenue included the following:</p> <ul style="list-style-type: none"> <li>• We assessed management's design of key controls to validate that revenue recognition was appropriate and applied in accordance with the entity's accounting policies.</li> <li>• We checked a sample of transactions from source data to the general ledger to test that appropriate revenue recognition had been applied.</li> <li>• We performed analytical procedures to validate the recognition of revenue.</li> <li>• We performed cut off procedures by testing a sample of items of revenue recognised during the year and subsequent to year-end.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the unaudited information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)

This description forms part of our auditor's report.

### **Report on the Remuneration Report**

#### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 23 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Traditional Therapy Clinics Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

#### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**



**Neil Smith**  
**Director**

Perth, 29 March 2017