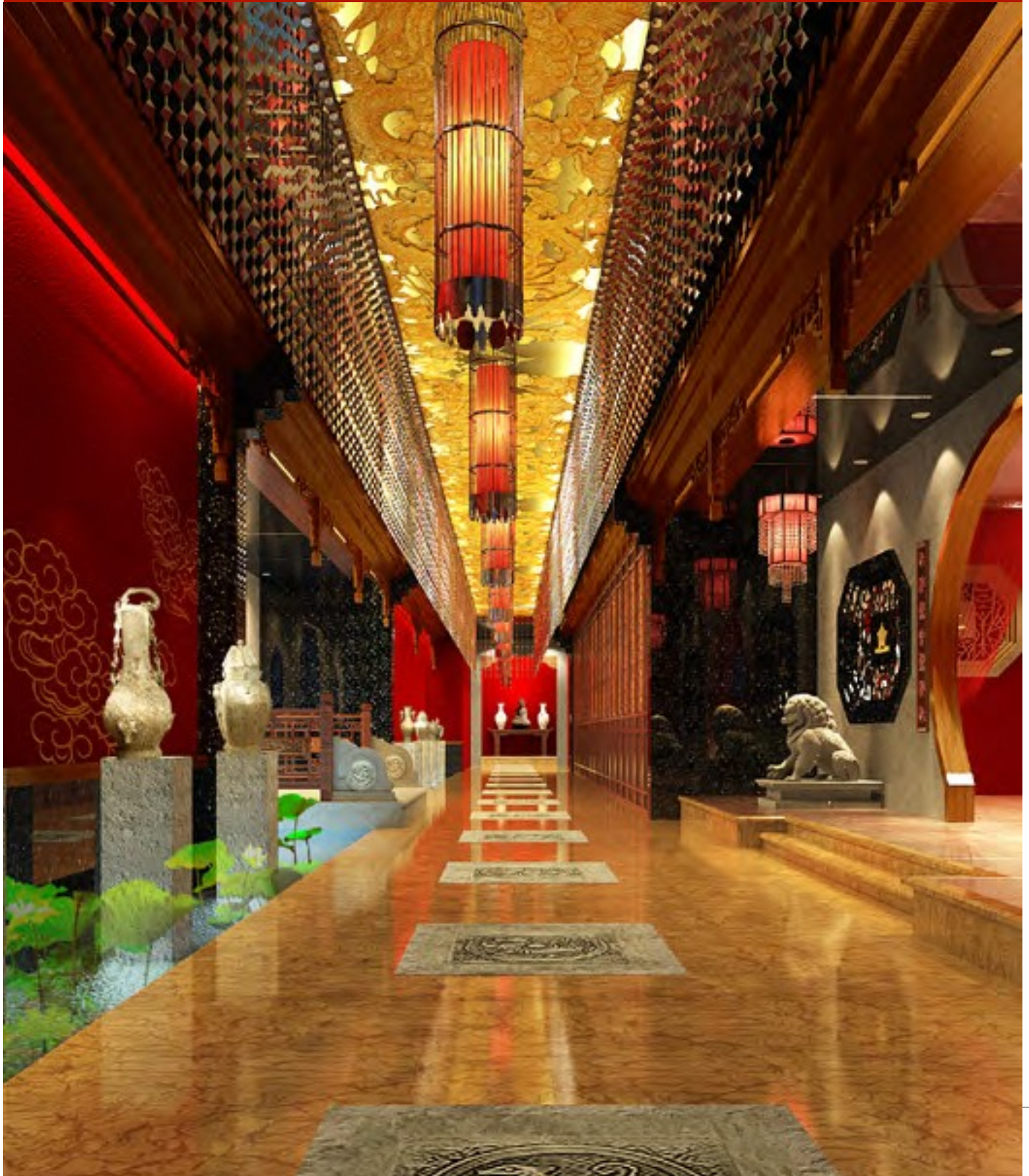


2017 Annual Report Traditional Therapy Clinics



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 13,812 therapists across its network of 391 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 2017 Annual Report.

Consistent with its announced strategy during 2017, the Company purchased 12 new clinics, bringing the total of Company owned clinics to 38 which is a 46% increase over 2016. The number of franchised clinics increased from 345 to 353 representing a 3% increase. Further as previously announced, the Company has decided to not purchase the new Head Office building and successfully negotiated the full repayment of the money that it had outlaid.

Financial Performance

In AUD terms this has resulted in a 17% increase in revenue, a 10% increase in cash to more than A\$37 million and a small profit reduction to deliver an after-tax result of A16,829,000 (1% reduction) before the unexpected write down described below. Note that if you look at the actual RMB performance of the business, revenue, cash and profit after tax deliver a better results: Revenue increased by 23%, cash increased by 15% and profit after tax (excluding share-based payment expense) increased by 4%.

The profit result has been affected by the increase in commissions paid to the therapists which was required to stay competitive in the evolving Chinese labour market and aside from the promotional cost associated with the new Company owned clinics costs are consistent with the previous year. The quality of our therapists is a key competitive advantage for TTC in this market. Also the management decided it was prudent at this time to use some of the cash resources to refurbish clinics and also building its own greenfield clinics. While the Company was liable for most of the costs during this refurbishment period the estimated revenue forgone would have delivered an EBIT growth of around 10%, which is in line with our profit objective.

Subsequent to the lodgement of our Appendix 4E which was reviewed by our auditors before being lodged, the auditors have advised us that a non cash write down of A\$3.496 million is required because of the fact that Madam Hu gifted 15,528,840 of her own shares to employees for a price of \$0.0001 per share at a time when the spot share price was \$0.225. Note that these were not new shares but shares already owned by Madam Hu. The Board supported this generous grant of her shares to staff as it involved no cash cost to the Company and no dilution to the Company's shareholders while providing a significant motivation to the employees.

The strong revenue growth was driven by the performance of Company owned clinics coming on line as planned. The management team has done an excellent job in integrating these 12 Company owned clinics.

The management team is very stable and focused on business operations.

Outlook

TTC plans to continue its strategy of expanding its company owned clinics to leverage the famous Fuqiao brand throughout China. 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 FY18:

- EBIT growth of 10%
- Expansion of Company owned clinics
- To pursue enhancements to the TTC business model either directly or through partnerships for the traditional Chinese medicine and health sector in a manner which positively impacts the capital market view of TTC.

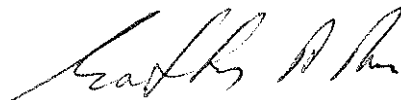
In summary for 2017 the Board and Management believe that the TTC business operations are overall on track and delivering the announced growth strategy. For 2018 the strategy is to focus on developing new Company owned greenfield clinics given the continuously rising price of acquiring existing clinics.

However the Board is acutely aware that, notwithstanding the solid performance of the business largely delivering on its announced strategy, that the poor share price is a great concern to all shareholders as well as the Board.

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

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.

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 TTC. 2017 was a challenging year for TTC despite the strong revenue growth and high profitability.

During the year, we have focused on growth through acquisition of franchised clinics, supplemented by developing owned greenfield clinics. Towards the end of the year, the Board has decided to focus our resources on developing our own greenfield clinics instead, and to explore other potential opportunities to deliver additional value to our shareholders.

The record revenue growth is attributable to the management team in Chongqing and in particular their effort in carefully analysing the various acquisition candidates from a vast pool of franchised clinics, and the subsequent integration of acquired clinics to the overall Group operations.

Operating Results

We have also worked hard at growing the business and have successfully in 2017, opened 25 new franchised clinics and extended franchise contracts for 45 clinics.

We have also acquired 12 clinics from the existing franchise base which when added to our 26 existing clinics takes the number of clinics we now own to 38.

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 2017 we recruited 2,819 new staff members (management and therapists) against the planned recruitment of 2,750 recruitments, exceeding our target by 2.51%.

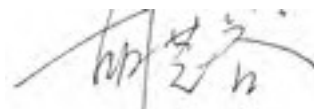
During 2017, we trained 8,607 staff (managers and therapists) compared to the planned 8,385, exceeding target by 2.65%, further enhancing our pool of professional skills and techniques.

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

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 (Cont.)

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 391 operating in 29 out of China's 33 administrative districts.

The Fuqiao brand is highly respected within China and 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. In 2017, the Group has commenced its first series of greenfield clinics in line with TTC growth strategy.

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 \$68.6 million in FY2017, 17% higher than the previous year. The results were mainly driven by:

- 8 new franchise agreements
- Full year impact of 7 owned clinics added in FY2016
- Acquisition of 12 new clinics in FY2017
- The revenue of existing 19 clinics remained stable in FY2017

EBITDA has decreased by 14% from \$27.7 million to \$23.9 million. Net Profit After Tax decreased by 21% from \$17.0 million in FY2016 to \$13.3 million in 2017. This result has been affected by:

- Gross profit decreased by 4% or \$1.21 million in FY2017, despite increased in revenue. This is primarily due to temporary closure of 23 owned clinics from 1 to 1.5 months due to renovation. The Head Clinic has been closed for renovation since August 2017. The renovation of Head Clinic is estimated to take 8 months to complete. There was no revenue generated during the renovation period. However, rent, utilities, wages and salaries were still incurred during the renovation period, leading to overall decline in gross profit.
- A share-based payment expense of \$3.492 million was recorded in FY2017. On 3 November 2017, Zhirong Hu disposed 15,528,840 of her shares indirectly owned through Hwazon Investment Limited, a company of which Zhirong Hu is a director. These shares were disposed to selected long term employees as a reward, instead of issuing new shares under a share plan to avoid diluting the shareholding of existing shareholders. This share-based payment expense is a one-off non-cash expense and has no impact on the net assets or the profitability of the Company. Employees who received the shares are not key management personnel or related parties to the Company. Excluding the share-based payment expense, the Company's EBITDA decreased by 1% from \$27.7 million in 2016 to \$27.4 million in 2017; Net Profit After Tax decreased by 1% from \$17 million in FY2016 to \$16.8 million in FY2017.
- Negative impact from currency exchange (AUD: RMB) from 1:4.9448 in FY2016 to 1:5.1813 in FY2017, an unfavourable change of 4.78%.

Looking at the actual performance in RMB currency (which is currency of the operating business), total revenue increased by RMB66.7 million or 23.1%, from RMB288.9 million to RMB355.6 million. Excluding the share-based payment expense mentioned above, EBITDA increased by 4.40% from RMB136 million in FY2016 to RMB142 million in FY2017 and NPAT of RMB87.19 million was higher than last year by RMB 3.39 million or 4.05%.

Review of Operations and Financial Performance (Cont.)

Summary of Financial and Operational Results

TTC's financial and operational results are summarised below:

Highlights	FY17	FY16	Change%
	A\$ million	A\$ million	
Revenue	68.6	58.4	17%
Gross Profit	31.4	32.6	-4%
Gross Margin	46%	56%	-18%
EBITDA	23.9	27.7	-14%
EBITDA Margin	35%	47%	-26%
EBIT	21.2	25.9	-18%
EBIT Margin	31%	44%	-30%
NPBT	21.3	26.0	-18%
Tax Expense	(8.0)	(9.0)	-12%
NPAT	13.3	17.0	-21%
EPS*	5.70 cents	7.4 cents	-23%*
Annual Dividend	1.7 cents	3.4 cents	-50%
Clinics			
Additional Franchises	8	38	-79%
Number of Franchised Clinics	353	345	2%
Number of Owned Clinics	38	26	46%
Total Number of Clinics	391	371	5%

* Earnings per share calculation is based on the weighted average number of shares issued to shareholders of Traditional Therapy Clinics Limited. The weighted average number of shares was 233,910,475 in FY2017 and 228,413,762 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 2017 financial year, the Group opened an additional 8 new franchised clinics throughout China, increasing the network by 2% to 353. 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 12 previously franchised clinics during the year. This resulted in a 46% increase in the number of clinics owned by the Group.

The Company has made significant progress on building its first series of greenfield clinics. There are 5 greenfield clinics being established in last quarter of 2017. Three of the greenfield clinics are located in Guizhou, one in Hainan and one in Inner Mongolia. The construction of the new greenfield clinics is currently underway. The Company expects that all of these new greenfield clinics will commence operations in 2018.

On 28 July 2017, the Company has cancelled the acquisition of a new head office in Chongqing City's main financial district. The Company has received the full refund of the amount of AUD 16.97 million (RMB87.90) million before 30 December 2017.

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 2017. 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	Chairman Independent, Non-executive Director
Zhirong Hu	Managing Director
Sanzheng Zhang	Executive Director
Christian Drysdale	Independent, Non-executive Director

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
Total shares/options as at reporting date	Options: 5,400,000



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
Total shares/options as at reporting date	Shares: 121,445,456

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
Total shares/options as at reporting date	Shares: 9,443,214



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
Total shares/options as at reporting date	Options: 3,840,000

Directors' Report (Continued)

Meetings of directors

The number of meetings of directors and committees held during the year ended 31 December 2017 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 ¹	Attended	Held ¹	Attended	Held ¹
Geoff Ross	4	4	2	2	1	1
Zhirong Hu	4	4	2	2	1	1
Sanzheng Zhang	4	4	2	2	1	1
Christian Drysdale	3	3	2	2	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 29 March 2017, 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

No matters or circumstances have arisen since 31 December 2017 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.

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 2017 (Reporting Period).

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

Directors' Report (Continued)

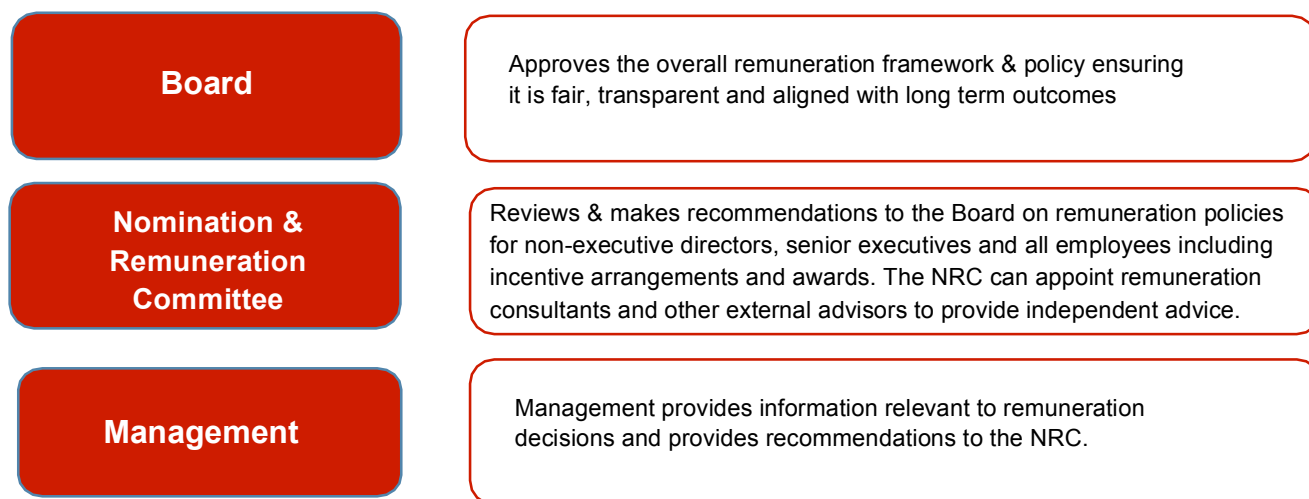
Content of Remuneration Report

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 14
5. Chinese and Australian executives' remuneration and service agreement	Page 15
6. Non-executive Directors' shareholding and interests	Page 18
7. Executive Directors' and Executives' shareholding and interests	Page 19
8. KMP Remuneration table	Page 20
9. Additional information relating to KMP	Page 21

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 ¹	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	
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	Ms Chen Shean Ong	Chief Financial Officer	13 October 2017	-
Australian Executive	Mr Peter Wong	Chief Financial Officer (Former)	21 July 2016	13 October 2017

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:

- (i) External Equity: Deliver market competitive reward packages necessary to attract and retain talented employees, taking into account the employee's geographical location;
- (ii) 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;
- (iii) Internal Equity: Provide fair, consistent and internally equitable reward to appropriately compensate employees for their contributions and performance outcomes;
- (iv) Affordability and Sustainability: Manage the balance between reward funding and Company performance / financial outcomes; and
- (v) Communication and Governance: Ensure a level of transparency and clarity in reward design and governance processes.

The Australian Executives participate 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 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.

The purpose and advantage of these Options is to provide a non-cash form of remuneration that further aligns the interests of

Directors' Report (Continued)

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 ¹	Number of Options ²
Chairman	2017	\$160,000	5,400,000
	2016	\$160,000	5,400,000
Non-executive Director	2017	\$60,000	3,840,000
	2016	\$60,000	3,840,000

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 consist 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.

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 167,050 (A\$32,241)
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.

Directors' Report (Continued)

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 157,850 (A\$30,466)
Details	<p>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.</p> <p>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.</p> <p>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.</p>

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	RMB 150,050 (A\$28,960)
Details	<p>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.</p>

Directors' Report (Continued)

CFO's remuneration – Ms Chen Shean Ong

Name	Ms Chen Shean Ong
Role	Chief Financial Officer
Location	Perth, Australia
Agreement Commenced	13 October 2017
Term of Agreement	Open ended
Remuneration	AUD\$50,000 per annum (inclusive of statutory superannuation)
Details	Ms Ong is employed as the Chief Financial Officer of the Group. Ms Ong may terminate her employment contract by giving one month's notice in writing. The Company may terminate Ms Ong's employment contract by giving one month's notice in writing. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the Company may terminate Ms Ong'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 31 December 2017 is as follows:

Year ended 31 December 2017		Balance 1 January 2017	Acquired	Granted as Remuneration ¹	Fair Value of Grant ² \$	Disposed	Options Exercised	Total at 31 December 2017	Total Vested/ Exercisable At 31 December 2017
Geoff Ross	Shares	-	-	-	-	-	-	-	-
	Options ¹	5,400,000	-	-	-	-	-	5,400,000	1,800,000
Christian Drysdale	Shares	-	-	-	-	-	-	-	-
	Options ¹	3,840,000	-	-	-	-	-	3,840,000	1,280,000

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.

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

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.

Directors' Report (Continued)

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:

Year ended 31 December 2017		Balance 1 January 2017	Acquired	Fair Value of Grant \$	Disposed	Performance Rights Exercised	Performance Rights Forfeited	Balance at date of Report
Zhirong Hu	Shares	136,974,296 ¹	-	-	15,528,480 ²	-	-	121,445,456 ¹
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Sanzheng Zhang	Shares	9,443,214 ¹	-	-	-	-	-	9,443,214 ¹
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-
Ping Jian	Shares	8,870,898 ¹	-	-	-	-	-	8,870,898 ¹
	Options	-	-	-	-	-	-	-
	Rights	-	-	-	-	-	-	-

1. Zhirong Hu's, Sanzheng Zhang's and Ping Jian's 139,759,568 Shares are indirectly owned through BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>, benefit to 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. On 3 November 2017, Zhirong Hu disposed her shares indirectly owned through Hwazon Investment Limited, a company of which Zhirong Hu is a director, to selected long term employees as reward, instead of issuing new shares under a share plan. See Note 22 Share-Based Payment.

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

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.

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:

Directors' and Officers' Remuneration Table – Year Ended 31 December 2017											
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 ¹	2017	148,312 ²	-	-	148,312	11,688	-	-	296,867	456,867	0
	2016	54,795	-	-	54,795	5,205	-	-	171,703	231,703	0
Christian Drysdale ¹	2017	54,795	-	-	54,795	5,205	-	-	211,106	271,106	0
	2016	27,397	-	-	27,397	2,603	-	-	122,100	152,100	0
Andrew Sneddon ³	2017	-	-	-	-	-	-	-	-	-	0
	2016	118,282	-	-	118,282	-	-	-	267,805	386,087	0
Jeffrey Fisher ⁴	2017	-	-	-	-	-	-	-	-	-	0
	2016	37,729	-	-	37,729	3,582	-	-	142,830	184,141	0
Glen Lees ⁴	2017	-	-	-	-	-	-	-	-	-	0
	2016	37,729	-	-	37,729	3,582	-	-	142,830	184,141	0
Executive Directors											
Zhirong Hu ⁵	2017	32,241	-	-	32,241	-	-	-	-	32,241	0
	2016	33,543	-	-	33,543	-	-	-	-	33,543	0
Sanzheng Zhang ⁵	2017	30,466	-	-	30,466	-	-	-	-	30,466	0
	2016	31,700	-	-	31,700	-	-	-	-	31,700	0
Directors Total	2017	265,814	-		265,814	16,893	-	-	507,973	790,680	0
	2016	341,175	-		341,175	14,972	-	-	847,268	1,203,415	0
Executives											
Ping Jian ⁵	2017	28,960	-	-	28,960	-	-	-	-	28,960	0
	2016	30,266	-	-	30,266	2,282	-	-	-	32,548	0
Chen Shean Ong ⁶	2017	9,513	-	-	9,513	904	-	-	-	10,417	0
	2016	-	-	-	-	-	-	-	-	-	0
Peter Wong ⁷	2017	57,838	-	-	57,838	5,495	-	-	-	63,333	0
	2016	36,530	-	-	36,530	3,470	-	-	-	40,000	0
Zhonghan Wu ⁸	2017	-	-	-	-	-	-	-	-	-	0
	2016	50,971	-	-	50,971	3,516	-	-	-	54,487	0
KMP Total	2017	362,125	-	-	362,125	23,292	-	-	507,973	893,390	-
	2016	458,942	-	-	458,942	24,240	-	-	847,268	1,330,450	-

1. Options granted to the 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.

2. As at 31 December 2017, Remuneration of \$68,526.56 is owing to Geoff Ross.

Directors' Report (Continued)

3. 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. Represents remuneration from 1 January 2016 to 4 August 2016.
4. Jeff Fisher and Glen Lees are residents of Australia and remunerated in AUD. Represents remuneration from 1 January 2016 to 6 July 2016.
5. 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 5.1813.
6. Ms Chen Shean Ong is a resident of Australia and remunerated in AUD. Represents remuneration from 13 October 2017 to December 2017.
7. Peter Wong is a resident of Australia and remunerated in AUD. Represents remuneration from 1 January 2017 to 13 October 2017 (date of resignation).
8. 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 last 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 (vested at date of report)
	Tranche 3	1 January 2018 (vested at date of report)
	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 summarised below:

Issue Date	31 August 2015															
Option holders	Non-Executive Directors (or their Eligible Associates)															
Number of Options issued	<table><tr><td>Participant</td><td>Number of Options</td></tr><tr><td>Andrew Sneddon</td><td>3,300,000</td></tr><tr><td>Glen Lees</td><td>1,760,000</td></tr><tr><td>Jeff Fisher</td><td>1,760,000</td></tr></table>		Participant	Number of Options	Andrew Sneddon	3,300,000	Glen Lees	1,760,000	Jeff Fisher	1,760,000						
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	<p>The Options vest and become capable of exercise in 7 equal tranches over a 3-year period as follows:</p> <table><tr><td>Tranche 1</td><td>31 August 2015 (fully vested)</td></tr><tr><td>Tranche 2</td><td>28 February 2016 (fully vested)</td></tr><tr><td>Tranche 3</td><td>28 August 2016 (90% early vested) *</td></tr><tr><td>Tranche 4</td><td>28 February 2017 (90% early vested) *</td></tr><tr><td>Tranche 5</td><td>28 August 2017 (90% early vested) *</td></tr><tr><td>Tranche 6</td><td>28 February 2018 (90% early vested) *</td></tr><tr><td>Tranche 7</td><td>28 August 2018 (90% early vested) *</td></tr></table> <p>* 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.</p>		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) *
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) *															
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	FY2017 A\$	FY2016 A\$
Balance at 1 January	Ms Zhirong Hu	-	85,134
Repayment to KMP – Ms Zhirong Hu	Ms Zhirong Hu	-	(84,104)
Impact of movements in foreign exchange		-	(1,030)
Balance at 31 December		-	-

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 FY2017 remuneration report was approved by 99% of the votes cast at the last AGM held on 1 June 2017.

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
- 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.

Directors' Report (Continued)

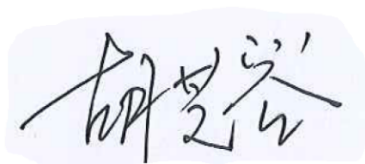
Rounding of amounts

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.

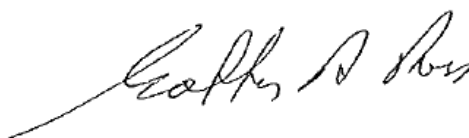
Amounts in this report have been rounded off to the nearest thousand dollars or in certain cases the nearest dollar.

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 2018
People's Republic of China



Geoff Ross
Chairman
29 March 2018
Australia

Other Shareholder Information

Distribution of Shareholders

As at 8 March 2018, the Company had 545 shareholders and a total of 237,371,190 ordinary fully paid shares on issue. As at 8 March 2018, the distribution of shareholders was as follows:

Size of Holding	Number of Shareholders	Number of Ordinary Shares	% of Issued Capital
1 - 1,000	22	8,534	0.01
1,001 - 5,000	112	403,727	0.17
5,001 - 10,000	66	530,298	0.22
10,001 - 100,000	234	9,344,427	3.94
100,001 and over	111	227,084,204	95.67
TOTAL	545	237,371,190	100.00

The number of shareholdings holding less than a marketable parcel of shares as at 8 March 2018 was 145.

Substantial Shareholders

Substantial Shareholders as at 8 March 2018 were as follows:

Shareholder	Number of Ordinary Shares	Percentage (%) of Total Issued
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	144,498,204	60.87

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.

Other Shareholder Information (Continued)

Top 20 Shareholders (by number of ordinary shares)

Rank	Name	Units	% of Units
1.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	144,498,204	60.874
2.	VIRTUE LINK HOLDINGS LIMITED	9,157,056	3.858
3.	MRS XIAOBEI HUANG	6,600,000	2.780
4.	UBS NOMINEES PTY LTD	5,681,452	2.393
5.	MR JIAHE LIN	5,423,383	2.285
6.	CITICORP NOMINEES PTY LIMITED	5,142,081	2.166
7.	J P MORGAN NOMINEES AUSTRALIA LIMITED	4,757,026	2.004
8.	TALENT FELICITY LTD	4,578,528	1.929
9.	YONGQIANG DU	2,510,825	1.058
10.	BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,494,082	0.629
11.	MS SHIHONG CHEN	1,355,637	0.571
12.	MR JOHN ALAN MACBRIDE PRICE	1,250,000	0.527
13.	MS WENBO ZHOU	1,221,936	0.515
14.	BEIJING RUIHUA FUTURE INVESTMENT MANAGEMENT CO LTD	1,160,694	0.489
15.	FIRST TRUSTEE COMPANY (NZ) LIMITED <IAN ROGER MOORE A/C>	1,000,000	0.421
16.	ACEMAC PTY LTD <MAC SUPER A/C>	784,992	0.331
17.	MR JUN ZHANG	778,300	0.328
18.	MR TE-CHIH TERRY CHEN	751,108	0.316
19.	LYNTER PTY LTD <HERFORD SUPER FUND A/C>	750,000	0.316
20.	MR NARAYAN CHANDRASEKHARAN	724,043	0.305
TOTAL	TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES	199,619,347	84.10
TOTAL	REMAINING HOLDERS BALANCE	37,751,834	15.90

Corporate Directory

Registered Office

Traditional Therapy Clinics Limited
C/- Baker McKenzie
Level 46, Tower One
International Tower Sydney
100 Barangaroo Avenue
Barangaroo NSW 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
Website 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

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 2017, 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 2018

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

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

		Consolidated	
	Notes	2017	2016
		\$'000	\$'000
Revenue	4	68,641	58,421
Cost of revenue		(37,288)	(25,858)
Gross profit		31,353	32,563
Selling and distribution expenses	5	(1,685)	(673)
General and administrative expenses	5	(4,287)	(4,686)
Other expenses		(7)	-
Finance costs	5	(186)	(167)
Finance income	5	91	140
Foreign currency exchange gain/(loss)		(60)	(245)
Share-based payment expenses		(3,951)	(953)
Profit before income tax		21,268	25,979
Income tax expense	6	(7,931)	(9,028)
Profit after income tax expense		13,337	16,951
Other comprehensive income			
<i>Items that maybe reclassified subsequently to profit or loss</i>			
Foreign currency translation		(233)	(2,811)
Total comprehensive income		13,104	14,140
Profit for the year is attributable to:			
Owners of Traditional Therapy Clinics Limited		13,337	16,951
		13,337	16,951
Total comprehensive income for the year is attributable to:			
Owners of Traditional Therapy Clinics Limited		13,104	14,140
		13,104	14,140
		Cents	Cents
Earnings per share for profit for the year			
Basic earnings per share	7	5.70	7.42
Diluted earnings per share	7	5.70	7.42

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 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Consolidated	
	Notes	2017 \$'000	2016 \$'000
Cash and cash equivalents	10	37,815	33,385
Other receivable		227	90
Other assets	11	2,038	3,183
Current assets		40,080	36,658
Property, plant and equipment	12	18,605	28,475
Intangible assets	13	33,815	17,216
Deferred tax assets	14	163	569
Non-current assets		52,583	46,260
Total assets		92,663	82,918
Current tax liabilities		1,021	3,416
Other payables	15	4,520	3,126
Other liabilities		516	425
Deferred revenue		9,181	10,913
Current liabilities		15,238	17,880
Deferred revenue		3,270	7,650
Deferred tax liabilities	14	1,655	-
Non-current liabilities		4,925	7,650
Total liabilities		20,163	25,530
Net assets		72,500	57,388
Contributed equity	16	28,599	23,112
Reserves	17	5,273	5,047
Retained earnings		38,628	29,229
Total equity		72,500	57,388

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	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated 2017						
Balance at 1 January 2017	23,112	3,203	218	1,626	29,229	57,388
Profit for the year	-	-	-	-	13,337	13,337
Other comprehensive income for the year, net of tax	-	-	(233)	-	-	(233)
Total comprehensive income for the year	-	-	(233)	-	13,337	13,104
Transaction with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	1,995	-	-	-	-	1,995
Share-based payments expense	3,492	-	-	459	-	3,951
Dividends paid (Note 9)	-	-	-	-	(3,938)	(3,938)
Balance at 31 December 2017	28,599	3,203	(15)	2,085	38,628	72,500
Consolidated 2016						
Balance at 1 January 2016	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)
Total comprehensive income for the year	-	-	(2,811)	-	16,951	14,140
Transaction with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	5,224	-	-	-	-	5,224
Share-based payments	-	-	-	953	-	953
Dividends paid (Note 9)	-	-	-	-	(9,457)	(9,457)
Balance at 31 December 2016	23,112	3,203	218	1,626	29,229	57,388

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Consolidated	
	Notes	2017 \$'000	2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		66,441	55,080
Payments to suppliers and employees		(43,081)	(29,604)
Interest received		91	140
Income tax paid		(8,265)	(7,718)
CASH PROVIDED BY OPERATING ACTIVITIES	23	15,186	17,898
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of clinics, net of cash acquired	24	(18,533)	(15,095)
Payment for property, plant and equipment		(5,677)	(19,771)
Proceeds from refund of building purchase		16,966	25,885
CASH USED IN INVESTING ACTIVITIES		(7,244)	(8,981)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,995	5,183
Share issue transaction costs		-	(295)
Loan repayments made to shareholders		-	(82)
Advance from third parties		1,600	-
Repayment to third parties		(1,600)	-
Dividends paid to company's owners		(3,938)	(9,123)
CASH USED IN FINANCING ACTIVITIES		(1,943)	(4,317)
NET INCREASE IN CASH		5,999	4,600
CASH AT BEGINNING OF YEAR		33,385	30,741
Effect of exchange rate changes on cash and cash equivalents		(1,569)	(1,956)
CASH AT YEAR END	10	37,815	33,385

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 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Corporate Information

The financial statements of Traditional Therapy Clinics Limited for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 29 March 2018 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 2017 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 2017 ("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.

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*

TRADITIONAL THERAPY CLINICS LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) *Impact of goodwill – note 24*

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 2017. They have not been adopted in preparing the financial statements for the year ended 31 December 2017. 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>Classification and measurement</p> <p>AASB 9 amends the classification and measurement of financial assets:</p> <ul style="list-style-type: none"> Financial assets will either be measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). Financial assets are measured at amortised cost or FVTOCI if certain restrictive conditions are met. All other financial assets are measured at FVTPL. 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. <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"> Classification and measurement of financial liabilities, and Derecognition requirements for financial assets and liabilities. <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>	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 2017

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>Impairment</p> <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>Hedge accounting</p> <p>Under the new hedge accounting requirements:</p> <ul style="list-style-type: none"> • The 80-125% highly effective threshold has been removed • Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable • 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 • 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 • 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 • Net foreign exchange cash flow positions can qualify for hedge accounting. 		

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

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"> Identifying performance obligations Principal vs. agent considerations Licensing Practical expedients. 	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 \$28 million operating lease commitment. The Group is in the process of assessing the impact.

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

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>Vesting and non-vesting conditions 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>Net settlement feature for withholding tax obligations 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>Changing classifications from cash-settled to equity-settled 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	The Group is in the process of assessing the impact.

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.

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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: 353 Franchise Clinics (2016: 345) located in 29 administrative divisions in China as at 31 December 2017.
- Owned Clinics: 38 Owned Clinics (2016: 26) located in Chongqing, Zhejiang, Sichuan, Jiangsu, Yunnan, Guizhou, Fujian, Guangxi, Guangdong and Hainan as at 31 December 2017.

Segment information

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

31 December 2017	Owned Clinics \$'000	Franchise Clinics \$'000	Unallocated \$'000	Total \$'000
Treatment service revenue	51,106	-	-	51,106
Franchise revenue				
Franchise fee	-	7,066	-	7,066
Training fee	-	4,426	-	4,426
Management fee	-	6,043	-	6,043
Revenue	51,106	17,535	-	68,641
Adjusted EBITDA	12,759	17,411	(6,234)	23,936
Depreciation and amortisation	(2,573)	-	-	(2,573)
Finance Cost	-	-	(186)	(186)
Finance income	-	-	91	91
Profit before income tax	10,186	17,411	(6,329)	21,268
31 December 2016	Owned Clinics \$'000	Franchise Clinics \$'000	Unallocated \$'000	Total \$'000
Treatment service revenue	38,523	-	-	38,523
Franchise revenue				
Franchise fee	-	7,218	-	7,218
Training fee	-	4,949	-	4,949
Management fee	-	7,731	-	7,731
Revenue	38,523	19,898	-	58,421
Adjusted EBITDA	12,421	19,431	(4,172)	27,680
Depreciation and amortisation	(1,674)	-	-	(1,674)
Finance Cost	-	-	(167)	(167)
Finance income	-	-	140	140
Profit before income tax	10,747	19,431	(4,199)	25,979

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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

Note 4: Revenue

	Consolidated	
	2017	2016
	\$'000	\$'000
Treatment service revenue	51,106	38,523
Franchise revenue		
Franchise Fee	7,066	7,218
Training fee	4,426	4,949
Management fee	6,043	7,731
Revenue	68,641	58,421

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
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Expenses

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Building	97	49
Fitting, furniture & equipment	2,123	1,304
Vehicles	1	85
Total depreciation	<u>2,221</u>	<u>1,438</u>
Amortisation		
Re-acquired rights	<u>352</u>	<u>236</u>
Employee benefits expenses		
Wages and salaries	25,302	17,330
Social security plans	3,268	2,266
Welfare expenses	20	596
Total employee benefits expenses	<u>28,590</u>	<u>20,192</u>
Finance costs		
Bank fee	185	164
Interest expense	1	3
Finance costs expensed	<u>186</u>	<u>167</u>
Rental expenses relating to operating leases		
Minimum lease payments	<u>4,255</u>	<u>2,754</u>

TRADITIONAL THERAPY CLINICS LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Income Tax Expenses

	Consolidated	
	2017	2016
	\$'000	\$'000
Income tax expense		
Current tax	5,896	8,428
Deferred tax - origination and reversal of temporary differences	2,060	292
Adjustment for current tax of prior years	(25)	308
Aggregate income tax expense	<u>7,931</u>	<u>9,028</u>
 Reconciliation of the effective tax rate		
Profit before income tax expense	<u>21,268</u>	<u>25,979</u>
Tax at the Australian tax rate of 30%	6,379	7,793
Add/(Less) tax effect of:		
Non-deductible expense	286	28
Non-deductible share-based payment expenses	1,186	286
Taxable intercompany revenue	338	607
Deductible intercompany expense	-	(101)
Utilisation of previously unrecognised tax losses	-	(250)
Deferred tax asset previously recognised now not recognised	405	-
Deferred tax asset not recognised for losses	326	33
Difference in overseas tax rates	(1,351)	(1,304)
Withholding tax	387	1,628
Adjustment for current tax of prior periods	(25)	308
Total	<u>7,931</u>	<u>9,028</u>
 Effective tax rate	37%	35%

Applicable income tax rate

The applicable income tax rates in 2017 and 2016 for PRC subsidiaries are 25% and remain the same in the future.

	Consolidated	
	2017	2016
	\$'000	\$'000
Total unused tax losses at year-end	2,425	524
Potential benefit at 25% in P.R. China	<u>606</u>	<u>131</u>
 Total unused tax losses at year-end	3,009	-
Potential benefit at 30% in Australia	<u>903</u>	<u>-</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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Income tax expenses (continued)

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Basic earnings per share		
Profit after income tax attributable to owners of Traditional Therapy Clinics Limited used to calculate basic earnings per share:	13,337	16,951
Diluted earnings per share		
Profit after income tax attributable to owners of Traditional Therapy Clinics Limited used to calculate diluted earnings per share:	13,337	16,951
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	233,910,475	228,413,762
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	233,910,475	228,413,762

Diluted earnings per share are equal to basic earnings per share as the options are out of the money as at 31 December 2017, 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 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.

TRADITIONAL THERAPY CLINICS LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	Consolidated	
	2017	2016
	\$	\$
Audit services		
BDO WA for audit or review of the financial statements for the entity or any entity in the Group	139,474	136,705
	<u>139,474</u>	<u>136,705</u>

Note 9: Dividends

	Consolidated	
	2017	2016
	\$'000	\$'000
Interim dividend for the year ended 31 December 2016 of 1.70 cents per fully paid share paid on 8 May 2017*	3,938	-
Final dividend for the year ended 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
	<u>3,938</u>	<u>9,457</u>

* On 8 May 2017, the Company paid an unfranked interim dividend for the year ending 31 December 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.

*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.

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.

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Cash & Cash Equivalents

	Consolidated	
	2017	2016
	\$'000	\$'000
Cash on hand	309	353
Cash at bank	37,506	33,032
Cash and cash equivalents	<u>37,815</u>	<u>33,385</u>

Cash on hand is non-interest bearing. Cash at bank bears a floating interest rate at 0.24% (2016: 0.30%).

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

	2017	2016
	\$'000	\$'000
Prepayments	2,038	3,167
GST receivable	-	16
Total	<u>2,038</u>	<u>3,183</u>

Included in prepayments are the following key items:

The Group prepaid \$1,498,554 (2016: \$841,000) for advertising as at 31 December 2017 as part of its marketing operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Property, Plant and Equipment

	Consolidated	
	2017	2016
	\$'000	\$'000
Buildings-at cost	1,104	1,116
Less: Accumulated depreciation	(242)	(144)
	<u>862</u>	<u>972</u>
Furniture, fittings and equipment-at cost	18,420	13,066
Less: Accumulated depreciation	(6,147)	(4,027)
	<u>12,273</u>	<u>9,039</u>
Vehicles-at cost	1,148	1,161
Less: Accumulated depreciation	(1,087)	(1,098)
	<u>61</u>	<u>63</u>
Capital works in progress	5,409	18,401
Total property, plant and equipment-at cost	26,081	33,745
Less: Accumulated depreciation	(7,476)	(5,270)
	<u>18,605</u>	<u>28,475</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:

	Building	Fitting, furniture & equipment	Vehicles	Capital works in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2016					
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>
31 December 2017					
Opening net book value	972	9,039	63	18,401	28,475
Additions	-	5,495	-	5,409	10,904
Disposal	-	-	-	(18,200)	(18,200)
Depreciation charge	(97)	(2,123)	(1)	-	(2,221)
Foreign exchange translation	(13)	(138)	(1)	(201)	(353)
Closing net book value	<u>862</u>	<u>12,273</u>	<u>61</u>	<u>5,409</u>	<u>18,605</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.

TRADITIONAL THERAPY CLINICS LIMITED
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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

	Consolidated	
	2017	2016
	\$'000	\$'000
Goodwill - at cost	33,682	16,850
Reacquired rights - at cost	780	658
Less: Accumulated amortisation	(647)	(292)
	133	366
	33,815	17,216

Reconciliations

	Consolidated	
	2017	2016
	\$'000	\$'000
Goodwill		
Balance at beginning of year	16,850	9,906
Acquisitions through business combinations (note 24)	16,719	7,437
Effect of movements in foreign exchange	113	(493)
Balance at end of period	33,682	16,850
Reacquired rights		
Balance at beginning of period	366	479
Acquisitions through business combinations (note 24)	127	145
Amortisation	(352)	(236)
Effect of movements in foreign exchange	(8)	(22)
Balance at end of period	133	366

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 of 0.5% and cost for each clinic has been conservatively estimated at 3.5% per year
- Future cash flow has been discounted at 15% pre-tax

At 31 December 2017, 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 result.

Note 14: Non-Current Assets And Liabilities -Deferred Tax

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Tax losses	-	27
Share issue costs	-	542
Others	163	-
Total deferred tax assets	163	569

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Non-current assets and liabilities – Deferred Tax (continued)

Movements in deferred tax assets

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

Movements in deferred tax assets

	Balance at beginning of period \$'000	(Charged)/ credited to profit or loss \$'000	(Charged)/ credited to equity \$'000	Effect of movements in foreign exchange \$'000	Balance at end of period \$'000
Consolidated					
31 December 2017					
Tax losses	27	(27)	-	-	-
Tax losses – China	-	1,366	-	-	1,366
IPO costs	542	(542)	-	-	-
Others	-	165	-	(2)	163
Total deferred tax assets	569	962	-	(2)	1,529
Less: Set-off	-	(1,366)	-	-	(1,366)
	569	(404)	-	(2)	163

Movements in deferred tax liabilities

	Balance at beginning of period \$'000	(Charged)/ credited to profit or loss \$'000	(Charged)/ credited to equity \$'000	Effect of movements in foreign exchange \$'000	Balance at end of period \$'000
Consolidated					
31 December 2017					
Goodwill - Amortisation	-	3,021	-	-	3,021
	-	3,021	-	-	3,021
Less: Set-Off	-	(1,366)	-	-	(1,366)
	-	1,655	-	-	1,655

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15: Other Payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Salary payables	2,012	1,417
Accruals	77	80
Other payables	2,431	1,629
	<u>4,520</u>	<u>3,126</u>

Note 16: Contributed Equity

(a) Share capital

	Consolidated			
	2017		2016	
	Shares	\$'000	Shares	\$'000
Ordinary shares fully paid	<u>237,371,190</u>	<u>28,599</u>	<u>231,671,190</u>	<u>23,112</u>

*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

Details	Date	Number of shares	Issue price	\$'000
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 1 January 2017		231,671,190		23,112
Share placement	11 August 2017	5,700,000	\$0.3500	1,995
Add: Share-based payment	3 November 2017			3,492
At 31 December 2017		<u>237,371,190</u>		<u>28,599</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.

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.

TRADITIONAL THERAPY CLINICS LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Contributed Equity (continued)

(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

	Consolidated	
	2017	2016
	\$'000	\$'000
Surplus reserve	3,203	3,203
Foreign currency translation reserve	(15)	218
Share-based payments reserve	2,085	1,626
	<u>5,273</u>	<u>5,047</u>

Surplus reserves

Surplus reserves comprise capital reserve of \$48,294 (2016: \$48,294) and the statutory surplus reserve of \$3,154,706 (2016: \$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 and this requirement is only applicable to the Chinese subsidiaries.

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 2017 and 31 December 2016, the Group held the following financial instruments:

	Consolidated	
	2017	2016
	\$'000	\$'000
Financial Assets		
Current		
Cash and cash equivalents	37,815	33,385
Other receivables	227	90
Cash and receivables	38,042	33,475
Financial liabilities		
Current		
Other payables	4,520	3,126
Borrowings and payables	4,520	3,126

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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 18: Financial risk management (continued)

(a) Credit risk (continued)

Analysis of credit exposure by geographical areas

	Consolidated	
	2017	2016
	\$'000	\$'000
Cash and cash equivalents		
China	37,740	32,987
Australia	75	398
Other receivables		
China	227	90
Total cash and receivables	38,042	33,475

Concentration of risk by bank credit rating

	Consolidated	
	2017	2016
	\$'000	\$'000
Cash and cash equivalents		
A-1	37,506	33,032
Unrated	309	353
Total cash and cash equivalents	37,815	33,385

(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.

Maturity analysis

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2017					
Other Payables	4,520	-	-	4,520	4,520
Interest free borrowings	-	-	-	-	-
	4,520	-	-	4,520	4,520
At 31 December 2016					
Other payables	3,126	-	-	3,126	3,126
Interest free borrowings	-	-	-	-	-
	3,126	-	-	3,126	3,126

(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).

TRADITIONAL THERAPY CLINICS LIMITED
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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.

	2017		2016	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Cash and cash equivalents	0.24%	37,815	0.35%	33,385

Sensitivity analysis	2017		2016	
	\$'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	38	(38)	33	(33)
Tax charge at 30% (2016: 30%)	(11)	11	(10)	10
After tax increase/(decrease)	27	(27)	23	(23)

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 fair value 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.

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

	Consolidated	
	2017	2016
	\$	\$
Total KMP Compensation		
Short-term employee benefits	364,055	458,942
Post-employment benefits	23,292	24,240
Share-based payments	507,973	847,268
	<u>895,320</u>	<u>1,330,450</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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	Consolidated	
	2017	2016
	\$	\$
Loans from KMP		
Opening – Ms Zhirong Hu	-	85,134
Advances from KMP – Mr Zhonghan Wu	-	-
Repayment to KMP – Ms Zhirong Hu	-	(84,104)
Effect of movements in foreign exchange	-	(1,030)
Balance at year end – Ms Zhirong Hu	-	-

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. The information presented has been prepared using accounting policies that are consistent with those presented in Note 2.

	Parent	
	2017	2016
	\$'000	\$'000
Current assets	46,774	34,128
Non-current assets	-	405
Total assets	46,774	34,533
Current liabilities	8,932	4,656
Non-current liabilities	-	-
Total liabilities	8,932	4,656
Contributed equity	24,232	18,745
Retained Earnings / (Accumulated losses)	11,656	9,452
Share-based payment reserve	2,085	1,625
Foreign exchange transaction reserve	(131)	55
Total equity	37,842	29,877
Profit for the year	2,204	9,904
Other comprehensive income / (loss) for the year	-	731
Total comprehensive income for the year	2,204	10,635

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2017 and 31 December 2016.

Contractual commitments

The parent entity had no contractual commitments as at 31 December 2017 and 31 December 2016.

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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
		2017 %	2016 %	
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	
	2017 \$'000	2016 \$'000
Share-based payment expense recognised during the financial year		
Options issued under employee share ownership plan	552	1,035
Shares disposed to long-serviced employees as reward ¹	3,492	-
Performance rights issued/(reversed) under employee share ownership plan	(93)	(82)
	<u>3,951</u>	<u>953</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.

¹On 3 November 2017, Zhirong Hu disposed 15,528,840 of her shares indirectly owned through Hwazon Investment Limited, a company of which Zhirong Hu is a director. These shares were disposed to selected long term employees as a reward, instead of issuing new shares under a share plan to avoid diluting the shareholding of existing shareholders. The difference between the spot market rate at the time of disposal and consideration received are recognised as an employee benefit expense.

**TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 22: Share-Based Payments (continued)

(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 2015, they were issued with the following number of options respectively:

Name	Number of options
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 in 2016 received 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:

Name	Number of options
Geoff Ross	5,400,000
Christian Drysdale	3,840,000

Non-executive Directors	Vesting and exercise date
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:

Name	Number of options
Nicholas Ong	750,000

Company Secretary	Vesting and exercise date
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.

**TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 22: Share-based payments (continued)

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.

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	4,620,000
6 July 2016	\$0.75	750,000	-	-	-	-	750,000	375,000

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

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 22: Share-Based Payments (continued)

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.

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Operating profit after tax	13,337	16,951
Depreciation	2,221	1,438
Amortisation	352	236
Share-based payments	3,951	953
Unrealised foreign currency exchange (gain)/loss	-	245
Change in Assets and Liabilities:		
Increase in other receivables	(137)	(79)
(Increase)/decrease in other assets and prepayments	1,129	(643)
Decrease in deferred tax assets	407	321
(Decrease) / Increase in current tax liabilities	(740)	990
Increase in other payables	300	610
Decrease in other liabilities	(5,634)	(3,122)
Net cash flow from operating activities	<u>15,186</u>	<u>17,900</u>

Non-cash investing and financing activities

The Group had no non-cash investing and financing activities as at 31 December 2017 and 31 December 2016.

Note 24: Business Combinations

Acquisitions in the year ending 31 December 2017

During January to September 2017 the Group acquired 100% of the ownership of 12 clinics from its franchised clinic base in line with its business strategy to grow its owned clinic network and diversify its revenue stream.

On 31 January 2017, Fuqiao (Chongqing) Holdings Co., Ltd. acquired 100% of the ownership of three health treatment service stores in Guizhou Province in China as its new branches. On 30 April 2017, Fuqiao (Chongqing) Holdings Co., Ltd. acquired 100% of the ownership of three franchise clinics located in the Hainan Province, Guangxi Province and Guangzhou Province. On 23 May 2017, Fuqiao (Chongqing) Holdings Co., Ltd. acquired 100% of the ownership of three franchise clinics located in Tianjin, Jiangsu Province and Tibet. Fuqiao (Chongqing) Holdings Co., Ltd has further acquired 100% of ownership of three franchise clinics located in Inner Mongolia, Jiangsu Province and Henan Province on 1 September 2017.

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 24: Business Combinations (continued)

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

	Jingkai	Jinyang	Renhuai	Dongfang	Chikan	Fangcheng gang	Nankai	Xuzhou Ruili	Lasa	Xuzhou Yun Long	Henan Huaxian	E Er Duo Si	Total
	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	273	157	125	227	241	181	253	304	205	255	196	404	2,821
Prepayments	42	7	7	17	11	10	20	11	10	9	30	73	247
Net identifiable assets and liabilities	315	164	132	244	252	191	273	315	215	264	226	477	3,068
Reacquired rights	19	13	28	9	-	13	10	-	2	4	23	6	127
Goodwill	1,009	1,205	1,242	1,592	1,630	1,484	1,642	1,640	1,492	1,479	1,164	1,140	16,719
Net assets acquired	1,343	1,382	1,402	1,845	1,882	1,688	1,925	1,955	1,709	1,747	1,413	1,623	19,914

Purchase consideration comprises:

	Jingkai	Jinyang	Renhuai	Dongfang	Chikan	Fangcheng gang	Nankai	Xuzhou Ruili	Lasa	Xuzhou Yun Long	Henan Huaxian	E Er Duo Si	Total
	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	Clinic	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash paid	1,343	1,382	1,402	1,845	1,882	1,688	1,925	1,955	1,709	1,747	1,413	1,623	19,914
Unpaid consideration	-	-	-	-	-	-	-	-	-	-	-	-	-
Total consideration	1,343	1,382	1,402	1,845	1,882	1,688	1,925	1,955	1,709	1,747	1,413	1,623	19,914

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 24: Business Combinations (continued)

Revenue and profit contribution

From the acquisition dates, the twelve clinics have contributed \$8.95 million to revenue and \$1.74 million to net profit of the Group. If the acquisition had occurred on 1 January 2017, the revenue from the twelve clinics would have been \$14.51 million and the net profit would have been \$2.29 million.

Acquisition-related costs

No material acquisition related costs were incurred on the acquisition of the 12 clinics.

Purchase consideration - cash outflow

	2017 \$'000	2016 \$'000
Outflow of cash to acquire clinics, net of cash acquired		
Cash consideration paid	18,533	15,095

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.

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.

TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 25: Contingent Liabilities

The company had no contingent liabilities as at 31 December 2017 and 31 December 2016.

Note 26: Commitments

Capital commitments

The remaining balances of the renovations of Fuqiao Headquarter and five greenfield clinics are as follows:

Clinics	Due in 2018 \$'000
Fuqiao Headquarter	675
Greenfield Clinics:	
XiXiu	162
WeiNing	203
NeimengEERduosi	324
Henan Shangdu	196
HuaGuoYuan	187
Total	1,747

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.

	Consolidated	
	2017 \$'000	2016 \$'000
Operating lease commitments		
Within one year	5,200	3,382
One to five years	16,155	9,397
More than five years	6,690	3,271
Total	28,045	16,050

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: Changes to Financial Results Reported in Appendix 4E

On 28 February 2018 the Group announced to the market its preliminary financial results for the financial year ended 31 December 2017 for \$16.829 million. The audited profit after income tax of the Group for the relevant period was \$13.337 million; \$3.492 million less than the preliminary financial results. The changes represented 20.7% of the final financial results and were caused by adjustments in share-based payment expenses. Refer to Note 22 Share-Based Payments.

**TRADITIONAL THERAPY CLINICS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 28: Events after the End of the Reporting Period

No matters or circumstances have arisen since 31 December 2017 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.

Note 29: Company Details

Registered Office	C/- Baker & McKenzie Level 46, Tower One International Tower Sydney 100 Barangaroo Avenue Barangaroo NSW 2000 Australia
Principal Places of Business	Block A 4F, Da Gong Guan Wuhuan Building Jiulongpo District Chongqing People's Republic of China

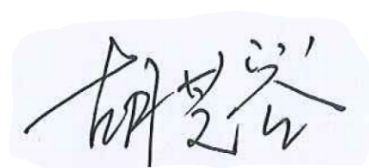
DIRECTORS' DECLARATION

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 2017 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 2017 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.

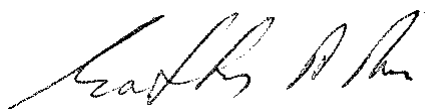
This declaration is signed in accordance with a resolution of the Directors.

On behalf of the Directors



Zhirong Hu
Managing Director

29 March 2018
People's Republic of China



Geoff Ross
Chairman

29 March 2018
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 2017, 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 2017 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.

Accounting for Business Combination

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in note 24 of the financial report, during the year the Group acquired 100% ownership of 12 clinics from its franchised clinic base for a total cash consideration of \$19.914 million.</p> <p>This is a key audit matter due to the size of the acquisition, the complexities inherent in a business combination and the significant judgements made by management, including:</p> <ul style="list-style-type: none"> • Identification and measurement of the fair value of assets and liabilities acquired. Under Australian Accounting Standards, management is required to identify all assets and liabilities of the newly acquired clinics and estimate the fair value of each item. Any excess consideration that is not attributed to an asset or liability is to be recognised as goodwill. 	<p>Our procedures included , but were not limited to the following:</p> <ul style="list-style-type: none"> • Reviewing the acquisition agreements to understand the key terms and conditions, and confirming our understanding of the transactions with management; • Agreeing the purchase price to the acquisition agreements and agreeing the cash consideration paid to banking and accounting records; • Obtaining an understanding of the transactions including an assessment as to whether the transactions constituted the acquisition of businesses or asset acquisitions; • Assessing management's fair value estimation of the fair value of the assets and liabilities identified in the acquisitions, and comparing the asset and liabilities recognised against the acquisition agreements and the historical financial information of the acquired businesses; • Obtaining a copy of the external valuation reports to critically assess the determination of the fair values of the leasehold improvement of each clinic acquired; • Testing the mathematical accuracy of the calculation of the resultant goodwill; and • Assessing the appropriateness of the related disclosures in Note 24 of the financial report.

Share-based payments

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in Note 22 in the financial report, during the year a key shareholder transferred 10% of their personally held shares in the company to long-term employees of the Group as a reward for their services. This transfer of shares is required to be accounted for as a share-based payment in accordance with accounting standard AASB 2 Share-based payments.</p> <p>Share-based payments are a complex accounting area which include assumptions utilised in the fair value calculations and judgements regarding the nature of the transaction. There is a risk in the financial statements that amounts are incorrectly recognized and/or inappropriately disclosed.</p> <p>Refer to Note 22 of the financial report for a description of the accounting policy and valuation technique applied to these transactions.</p>	<p>Our procedures on this share based payment transaction included the following:</p> <ul style="list-style-type: none">• Obtaining an understating of the nature of the transaction and assessing the correct accounting treatment;• Recalculating the estimated fair value of the share-based payment in accordance with the requirements of accounting standard AASB 2; and• Assessing the adequacy of the related disclosures in Note 22 of the financial report, in respect of the accounting treatment of share-based payments, including the valuation technique applied, and the accounting policy adopted.

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 2017, 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

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 12 to 23 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Traditional Therapy Clinics Limited, for the year ended 31 December 2017, 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 2018

ASX ADDITIONAL INFORMATION SHAREHOLDER INFORMATION AS AT 8 March 2018

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

1. A statement disclosing the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period; identify recommendations that have not been followed and reasons for not following them.

In accordance with the 3rd edition ASX Corporate Governance Council's Principles and Recommendations, the FY2017 Corporate Governance Statement, as approved by the Board, is available on the Company's website at [http://www.ttc-ltd.com/ under Corporate Governance](http://www.ttc-ltd.com/underCorporateGovernance). The Corporate Governance Statement sets out the extent to which the Company has followed the ASX Corporate Governance Council's Recommendations during the financial year ended 31 December 2017.

2. Substantial shareholders

The number of securities held by substantial shareholders and their associates as per the substantial shareholding notices lodged with the ASX are set out below:

Fully paid Ordinary Shares

Name	Number of shares	Percentage
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> ¹	144,498,204	60.87%

1. Zhirong Hu, Sanzheng Zhang and Ping Jian's Shares are indirectly owned through BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>, benefit to 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 operation entities to TTC.

3. Number of security holders and securities on issue

TTC has issued the following securities:

- 237,371,190 fully paid ordinary shares held by 454 shareholders;
- There were 17,058,287 unissued ordinary shares of TTC under option at the date of this report.
- There were no ordinary shares of TTC issued on the exercise of options during the year ended 31 December 2017 and up to the date of this report.
- There were no performance rights of TTC at the date of this report.

4. Voting rights

Ordinary shares

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, each share shall have one vote.

Options and Performance Rights

Option holders and Performance Rights holders do not have any voting rights on the securities held by them.

ASX ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION AS AT 8 March 2018

5. Distribution of security holders

a) Fully paid Ordinary Shares

Holdings Ranges	Holders	Total Units	%
1-1,000	22	8,534	0.00%
1,001-5,000	112	403,727	0.17%
5,001-10,000	66	530,298	0.22%
10,001-100,000	234	9,344,427	3.94%
100,001-99,999,999,999	111	227,084,204	95.67%
Totals	545	237,371,190	100.00%

b) Options

Holdings Ranges	Holders	Total Units	%
1-1,000	0	0	0.00%
1,001-5,000	0	0	0.00%
5,001-10,000	0	0	0.00%
10,001-100,000	0	0	0.00%
100,001-99,999,999,999	7	17,058,287	100.00%
Totals	7	17,058,287	100.00%

6. Unmarketable parcel of shares

The unmarketable parcel size and holders as follows:

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.0860 per unit	5,814	145	472,280

ASX ADDITIONAL INFORMATION SHAREHOLDER INFORMATION AS AT 8 March 2018

7. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding:

	Name	Balance as at 08-03-2018	%
1	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	144,498,204	60.87%
2	VIRTUE LINK HOLDINGS LIMITED	9,157,056	3.86%
3	MRS XIAOBEI HUANG	6,600,000	2.78%
4	UBS NOMINEES PTY LTD	5,681,452	2.39%
5	MR JIAHE LIN	5,423,383	2.28%
6	CITICORP NOMINEES PTY LIMITED	5,142,081	2.17%
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	4,757,026	2.00%
8	TALENT FELICITY LTD	4,578,528	1.93%
9	YONGQIANG DU	2,510,825	1.06%
10	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,494,082	0.63%
11	MS SHIHONG CHEN	1,355,637	0.57%
12	MR JOHN ALAN MACBRIDE PRICE	1,250,000	0.53%
13	MS WENBO ZHOU	1,221,936	0.51%
14	BEIJING RUIHUA FUTURE INVESTMENT MANAGEMENT CO LTD	1,160,694	0.49%
15	FIRST TRUSTEE COMPANY (NZ) LIMITED <IAN ROGER MOORE A/C>	1,000,000	0.42%
16	ACEMAC PTY LTD <MAC SUPER A/C>	784,992	0.33%
17	MR JUN ZHANG	778,300	0.33%
18	MR TE-CHIH TERRY CHEN	751,108	0.32%
19	LYNTER PTY LTD <HERFORD SUPER FUND A/C>	750,000	0.32%
20	MR NARAYAN CHANDRASEKHARAN	724,043	0.31%

8. The number and class of restricted securities or securities subject to voluntary escrow that are on issue and the date that the escrow period ends:

There were no restricted securities of TTC at the date of this report.

9. Unquoted securities

None

10. On market buy-back

There is no current on market buy-back.

11. Statement regarding use of cash and assets.

During the period between 31 December 2016 and 31 December 2017, TTC has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the replacement prospectus dated 30 June 2015.