



Results for Announcement to the Market

Traditional Therapy Clinics Limited ("Company")

ABN 68 603 792 712

APPENDIX 4E PRELIMINARY FINAL REPORT *for the year ended 31 December 2017*

www.ttc-ltd.com

Traditional Therapy Clinics Limited (TTC)

C/- Baker & McKenzie
Level 46, Tower One - International Tower Sydney,
100 Barangaroo Avenue, Barangaroo NSW 2000
ABN 68 603 792 712

Geoff Ross (Chairman)

Phone: +61 407 780 683
Email: geoff.ross@bridgechinaadvisor.com

Nicholas Ong (Co Sec):

Phone: +61 424 598 561
Email: nicholas.ong@minervacorporate.com.au

1 Details of the reporting period

Current Period: 1 January - 31 December 2017

Previous Corresponding Period: 1 January - 31 December 2016

2 Results for announcement to the market

	Comparison to previous corresponding period	Increase/Decrease	Change %	To A\$'000
2.1	Revenue from continuing operations	Increase	17%	68,641
2.2	Profit from ordinary activities after income tax	Decrease	(1%)	16,829
2.3	Net profit attributable to members	Decrease	(1%)	16,829

2.4 Final dividend

Decision on final dividend will be made when the annual report is published.

2.5 Explanation of Results

➤ Comparison of FY2017 Results to FY2016 Results

Year Ending 31 December	FY2017 A\$'000	FY2016 A\$'000	Change
Revenue	68,641	58,421	17%
Gross profit	31,353	32,563	(4%)
Gross margin	45.7%	55.7%	(4%)
Profit before income tax	24,762	25,979	(5%)
Profit after income tax	16,829	16,951	(1%)
New franchised clinics	8	38	(76%)
Number of franchised clinics	353	345	3%
Number of owned clinics	38	26	46%
Total number of clinics	391	371	6%

➤ Revenue

FY2017 recorded a 17% increase in revenue from \$58.42 million in FY2016 to \$68.64 million in FY2017. This strong growth was driven by:

- An increase in owned clinics revenue from \$38.522 million in FY2016 to \$51.106 million in FY2017 primarily due to the following factors:
 - The full year impact of 7 owned clinics acquired in the second half year of FY2016. This contributed an additional \$6.48 million in revenue during FY2017;
 - The acquisition of 12 new owned clinics in FY2017 contributed an additional \$8.95 million in revenue during FY2017; and
 - The revenue of existing 19 clinics remained stable in FY2017.
- Revenue from Franchise Clinics however decreased by \$2.36 million primarily due to a change in the management fee and training fee levy amount, which has reduced the average management fee by 18.1% and training fee by 6.3%, offsetting the full period impact of a net increase of 8 franchise clinics in FY2017. This has resulted in a fee reduction of \$1.633 million collected from the franchise clinics; and

- Negative impact from currency exchange (AUD: RMB) from 1:4.94 in FY2016 to 1:5.18 in FY2017, an unfavourable change of 4.88%.

In terms of the actual performance in RMB currency (which is currency of the operating business), total revenue has increased by RMB 66.7 million or 23.1%, from RMB 288.9 million in FY2016 to RMB 355.4 million in FY2017.

➤ **Profit and Operating Costs**

(A) Gross Profit

Gross Profit decreased by 4% or \$1.21 million in FY2017, and gross profit margin decreased from 55.7% to 45.7% 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 margin.

(B) Operating Costs

In FY2017, costs including Selling and Distribution Expenses, General and Administrative Expenses and Other Expenses was consistent with FY2016. The increase in advertisement and promotion of \$0.8 million was due to more owned clinics.

The full year impact of the Australian Head Office costs in FY2017 of \$1.02 million.

(C) Net Profit After Tax

Net Profit After Tax has slightly decreased from \$16.95 million in FY2016 to \$16.83 million in FY2017 primarily due to various factors affecting revenue and cost of revenue, as discussed above.

3 Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the Year Ended 31 December 2017 *(This statement is based on accounts, which are in the process of being audited)*

	Consolidated	
	31.12.2017	31.12.2016
	\$'000	\$'000
Revenue	68,641	58,421
Cost of revenue	(37,288)	(25,858)
Gross profit	31,353	32,563
Selling and distribution expenses	(1,685)	(673)
General and administrative expenses	(4,287)	(4,686)
Other expenses	(466)	(953)
Finance costs	(186)	(167)
Finance income	91	140
Foreign currency exchange loss	(60)	(245)
Profit before income tax	24,760	25,979
Income tax expense	(7,931)	(9,028)
Profit after income tax expense	16,829	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	16,596	14,140
Profit for the year is attributable to:		
Owners of Traditional Therapy Clinics Limited	16,829	16,951
	16,829	16,951
Total comprehensive income for the year is attributable to:		
Owners of Traditional Therapy Clinics Limited	16,596	14,141
	16,596	14,141
Earnings per share:		
Basic earnings per share (cents)	7.19¹	7.4¹
Diluted earnings per share (cents)	7.19	7.4

¹ 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.

4 Consolidated Statement of Financial Position

As at 31 December 2017 *(This statement is based on accounts, which are in the process of being audited)*

	Consolidated	
	31.12.2017	31.12.2016
	\$'000	\$'000
Cash and cash equivalents	37,815	33,385
Other receivables	227	90
Prepayments	2,038	3,167
Other assets	-	16
Current assets	40,080	36,658
Property, plant and equipment	18,605	28,475
Intangible assets	33,815	17,216
Deferred tax assets	163	569
Non-current assets	52,583	46,260
Total assets	92,663	82,918
Current tax liabilities	1,021	3,416
Other payables	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	1,655	-
Non-current Liabilities	4,925	7,650
Total liabilities	20,163	25,530
Net assets	72,500	57,388
Contributed equity	25,107	23,112
Reserves	5,273	5,047
Retained earnings	42,120	29,229
Total equity	72,500	57,388

5 Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017 *(This statement is based on accounts, which are in the process of being audited)*

	Contributed equity	Surplus reserves	Foreign currency translation reserve	Option reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated 2016						
Balance at 31 December 2015	17,888	3,203	3,029	673	21,735	46,528
Profit for the year	-	-	-	-	16,951	16,951
Other comprehensive income 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 cost	5,224	-	-	-	-	5,224
Share based payments	-	-	-	953	-	953
Dividends paid	-	-	-	-	(9,457)	(9,457)
Balance at 31 December 2016	23,112	3,203	218	1,626	29,229	57,388

Consolidated Statement of Changes in Equity (continued)

For the Year Ended 31 December 2017 *(This statement is based on accounts, which are in the process of being audited)*

	Contributed equity	Surplus reserves	Foreign currency translation reserve	Option reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Consolidated 2017</u>						
Balance at 31 December 2016	23,112	3,203	218	1,626	29,229	57,388
Profit for the year	-	-	-	-	16,829	16,829
Other comprehensive income for the year, net of tax	-	-	(233)	-	-	(233)
Total comprehensive income for the year	-	-	(233)	-	16,829	16,596
Transaction with owners in their capacity as owners:						
Contributions of equity, net of transaction cost	1,995	-	-	-	-	1,995
Share based payments	-	-	-	459	-	459
Dividends paid	-	-	-	-	(3,938)	(3,938)
Balance at 31 December 2017	<u>25,107</u>	<u>3,203</u>	<u>(15)</u>	<u>2,085</u>	<u>42,120</u>	<u>72,500</u>

6 Consolidated Statement of Cash Flows

For the Year Ended 31 December 2017 *(This statement is based on accounts, which are in the process of being audited)*

	Consolidated	
	31.12.2017	31.12.2016
	\$'000	\$'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	<u>15,186</u>	<u>17,898</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of clinics, net of cash acquired	(18,533)	(15,095)
Purchase of property, plant and equipment	(5,677)	(19,771)
Refund received in relation to purchase of building	16,966	25,885
CASH USED IN INVESTING ACTIVITIES	<u>(7,244)</u>	<u>(8,981)</u>
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	<u>(1,943)</u>	<u>(4,317)</u>
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	<u>(1,569)</u>	<u>(1,956)</u>
CASH AT YEAR END	<u><u>37,815</u></u>	<u><u>33,385</u></u>

7 Dividend Payment Information

	Type	Paid/ Declared	Total dividend	Dividend amount per security	Franked amount per security	Foreign sourced income amount per security
8 May 2017	FY2016 Final	Paid	\$3,938,410	1.70 cents	0 cents	1.70 cents
31 October 2016	FY2016 Interim	Paid	\$3,938,410	1.70 cents	0 cents	1.70 cents

8 Net tangible assets per ordinary share

	31.12.2017 Cents	31.12.2016 Cents
Net tangible assets per ordinary share	16.93	17.3

9 Details of entities over which control has been gained or lost during the period

Not applicable.

10 Details of associates and joint venture entities

Not applicable.

11 Other significant information

There are no other significant events or information not otherwise disclosed in these reports needed by an investor to make an informed assessment of the entity's financial performance and financial position.

12 Accounting standards

AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Interpretations have been used in compiling the information in this Appendix 4E.

13 Review of operations

The principal activity of the TTC group during the financial year was the provision of health services through its Fuqiao brand of franchised and owned health and wellness clinics throughout China.

In addition to the Explanation of Results set out in section 2.5 above, the Company provides the following information:

- The Company acquired 9 franchise clinics in the first half of 2017 and further acquired 3 franchise clinics in 2nd half of 2017. The clinics were acquired at a multiple of between 3 and 3.5 times of EBITA.
- 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. 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.
- As announced 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 (RMB 87.90) million before 30 December 2017.

- The Company is continuing its ongoing efforts to explore additional therapy techniques and embark on ongoing improvements in all aspects of its core services so as to further enhance its overall customer experience.

14 Auditing Status

This report is based on accounts, which are in the process of being audited.

15 Audit disputes or qualifications

This report is based on accounts, which are in the process of being audited.