Traditional Therapy Clinics Limited

2015 Full Year Results Presentation

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Who is Traditional Therapy Clinics Limited?

Chinese market leader

- The largest franchisor and owner of traditional therapeutic health and wellness clinics in China
- Operate in 27 out of China's 33 administrative divisions
- Engage over 13,000 therapists across the network
- Network of 333 franchised and owned clinics with a potential market of approximately 4,500 clinics (Hejun independent market report)
- Focused in the booming service industry segment which services the high growth Chinese middle class consumption
- Highly respected brand in China receiving the Chinese Well-Known Trademark designation from the State Administration for Industry Commerce
- An Australian parent entity with wholly owned subsidiaries operating in China

A strong history

1998: Fuqiao Established

2002: Initial Franchise

2004: Provincial Gov't recognition of Fuqiao as Famous Brand

2007: ISO9001: 2000 approval granted

2011: Exceeded 100 clinics

2013: Exceeded 200 clinics

2014: Central Gov't recognised "Fuqiao" as a "Famous Brand"

2014: Fuqiao approved as the National Professional Skills Appraisement Center for Bath and Massage Therapists by the Health and Family Planning Commission

2015: Listed on AXS and exceeded 300 clinics

Who is Traditional Therapy Clinics Limited? (cont.)

Robust corporate governance and financial position

- Listed on ASX 3 September 2015
- 3 out of 5 Directors are Independent, Non-Executive Australian Directors
- History of consistent profitable growth
- Strong Balance Sheet with $A30m cash at 31 December 2015
- 50 – 67% of NPAT dividend target
- Declared dividend of 4.2 cents in first year with a dividend yield of 8.4% on listing price

A growth company

- Market leader in a highly fragmented and expanding culturally engrained industry
- Continue to expand the franchise network
- Increase higher margin 'owned stores' through acquisition of existing franchises and selective greenfield development
- Develop IT systems to get closer and more engaged with customers
- Medium term plan to develop and distribute products to help customers with their broader health issues

Market and competitive position

Chinese Market leader

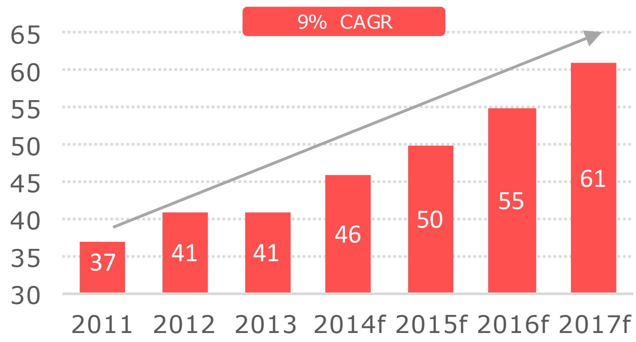
- The Chinese therapeutic massage industry was estimated in 2014 to be worth A$45.67 billion (RMB 216 billion), growing by 33% to A$60.69 billion (RMB 287 billion) by 2017
- Factors influencing industry growth include:
    - The growing middle class in China
    - Increased demand for services within the Chinese economy
    - Increased urbanisation
    - Improved industry standards results from increased regulation
- The current potential estimated market for clinics of the style of Fuqiao in China is 4,500
- Urbanisation of the Chinese population is estimated to grow at approximately 14 million per annum for the medium term

Top 3 clinic operators in China

by number of clincs in China

TTC Limted ('Fuqiao')	333
China Liangtse Group	88
K-Lotus Massage	100
Estimated market size	4,500

Foot massage health sector revenue ($A billion)



Growth Strategy

Our strategy is to continue to grow market share both organically and through acquisition

Priority	Growth avenue	Location type	Timeframe	Pros	Challenges
1	Expand franchise network	Greenfield	Ongoing	• Low capital investment • Maintain control over franchise and brand • Upfront and ongoing fees • Clinic Managers report to Fuqiao head office • Rapid brand expansion in growing consumer market•	• Head office commitment due to management of the franchise clinics • Lower absolute return than owned clinic • Training enough skilled clinic managers
2	Expand owned clinics	Acquire from franchise network	Ongoing	• High visibility over operations of franchised stores • Higher absolute returns than franchised clinics • Higher return on invested capital	• Expansion slower than franchise clinics due to capital requirements and potential lack of ready sellers
3	Expand owned clinics	Greenfield	Ongoing	• Less capital investment required than acquiring franchised clinic	• Investment of time and resources in selecting, securing and building clinic locations • New locations will require ramp-up periods • New property skill set required by the Fuqiao Management team
4	Industry acquisitions	Acquire other market participants	Opportunistic - Longer Term	• Add additional scale and presence in the market • Introduction of 'Fuqiao' practices and training	• Traditional Therapy Clinic's 'Fuqiao' brand is already the market leader • Less visibility over clinic performance than franchise network • Likely to require significant capital investment and re branding

Growth metrics

Traditional Therapy Clinics Limited has three main growth platforms, all with attractive returns on funds employed and will enable the profitable expansion of the brand

Priority	Growth avenue	Location type	Establishment / Acquisition Costs ($A '000)	Upfront revenue ($A '000)	Ongoing annual revenue ($A '000)	Ongoing annual Profit ($A '000)	Years to maturity	2014 Clinics	2015 Clinics	2016f Clinics
1	Franchise Model	Greenfield	Paid by Franchisee	A$102	A$47	N/A	1-2 years	286	314	339+
2	Expand owned clinics	Acquire from franchise network	2 - 2.5x EBITDA	N/A	A$2,150[1]	A$899[1]	0	11	19	29+
3	Expand owned clinics	Greenfield	A$600	N/A	A$2,150[1]	A$899[1]	1-2 years	0	0	0[2]

1. Based on average of all owned clinics
2. Fuqiao is in the planning phase for a greenfield clinic and head office which is currently expected to be delivered in 2017

Clinic rollout continues

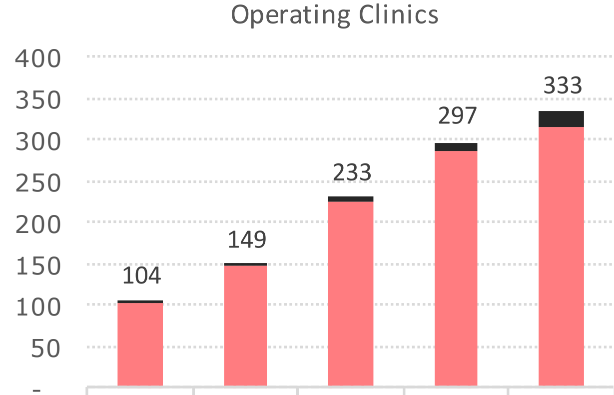
Clinic numbers ahead of prospectus forecasts due to recent acquisitions and faster franchise rollout

Owned Clinics – 19 (31 Dec 2015)

- 8 clinics acquired in two separate transactions
- Owned stores totalling 19 at December 2015, 8 ahead of prospectus forecasts and 72% higher than in FY14

Franchised clinics – 314 (31 Dec 2015)

- 36 new clinics in FY15
- 13% increase on FY14
- Achieved the planned establishment of new clinics outlined in the prospectus



	FY2011	FY2012	FY2013	FY2014	FY2015
Owned	2	2	9	11	19
Franchised	102	147	224	286	314
Total Clinics	104	149	233	297	333

Province	Clinics
Guizhou	41
Zhejiang	35
Siachuan	33
Chongqing	30
Henan	28
Guangxi	21
Jiangsu	19
Shandong	18
Fujian	17
Guangdong	12
Anhui	11
Hebei	9
Hubei	9
Hainan	7
Yunnan	7
Tianjin	5
Heilongjiang	5
Hunan	4
Shanxi	3
Shanghai	3
Xinjiang	3
Liaoning	3
Shanxi	2
Jiangxi	2
Beijing	2
Tibet	1
Mongolia	1
Total	331

Key FY15 Highlights

Traditional Therapy Clinics Limited has delivered its most profitable year to date

Financial Achievements

- ✓ Successful IPO and Listing on the ASX raising $A15 million
- ✓ Revenue $A44.8 million up 45.1% compared to the Revenue for the prior corresponding period[1] (pcp)
- ✓ EBITDA A$25.86 million up 34% compared to the EBITDA for the pcp
- ✓ NPAT A$17.13 million up 31.6% compared to the NPAT for the pcp
- ✓ Earnings Per Share A 7.7 cents[2] based on shares outstanding at 31 December 2015
- ✓ Final Divided 2.5 cents per share (unfranked)
- ✓ Full year dividends of 4.2 cents per share being an 8.4% yield on the IPO price

Operational Progress

- ✓ 36 new franchised stores opened in FY2015, an increase of 13% from pcp
- ✓ 8 stores acquired and operated by TTC (FY2015 total: 19 clinics, 73% higher than the pcp)
- ✓ Every owned clinic opened for the full 2015 year showed growth year on year with like for like sales growth of 6.8% and EBITDA growth of 8.3%
- ✓ 4,215 new therapists trained, 365 more than planned in FY2015
- ✓ Cultural Palace Clinic receives National Advanced Group status, the highest level of recognition in the Chinese service industry

1. TTC was incorporated on 24 February 2015. Comparisons to the previous corresponding period are comparisons to the historical financial information extracted from the financial report of the Fuqiao group of companies (now wholly owned subsidiaries of TTC) for the year ended 31 December 2014 which were audited by BDO Audit (WA) Pty Ltd in accordance with the Australian Accounting Standards. BDO Audit (WA) Pty Ltd issued an unmodified audit opinion for the 2014 financial year.
2. EPS of 15 cents disclosed in the financial statements was calculated using the weighted average number of shares as required by the Australian Accounting Standards.

Summary Profit and Loss

Strong financial performance the results of profitable growth of the clinic network

Profit and Loss summary	FY15	FY14	+/(-) FY14 %
	A$ millions		
Revenue	44.8	30.9	45%
Gross Profit	30	20.4	47%
Gross Margin	*67%*	*66%*	*1%*
EBITDA	25.9	19.2	35%
EBITDA Margin	*58%*	*62%*	*-4%*
EBIT	24.7	18.4	34%
EBIT Margin	*55%*	*60%*	*-4%*
NPBT	24.8	18.5	34%
Tax Expense	(7.7)	(5.5)	40%
NPAT	17.1	13.0	32%
EPS	15 Cents	N/A	N/A
Annual Dividend	4.2 Cents	N/A	N/A
Statutory NPAT	17.1	13.0	32%
IPO costs	1.0	0.0	n/r
Proforma NPAT [1]	18.1	13.0	39%

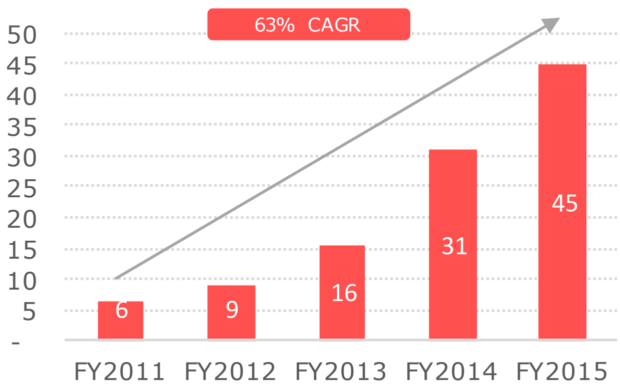
1. Proforma NPAT is arrived at after adding back transaction costs expensed to the P&L, associated with the company's IPO on the ASX

- 45% increase in $A Revenue driven by:
  - 36 new franchise agreements
  - Full year impact of 2 new owned clinics added in FY14
  - Acquisition of 8 new clinics in FY15
  - Sales growth from owned clinics
  - Exchange rate benefits
- EBITDA growth of 35% was impacted by:
  - One off costs associated with the IPO (A$1M)
  - ASX listing costs
  - Additional promotional expenses associated with owned clinics
- Proforma NPAT increase of 39% driven by growth in revenue offset by additional administrative costs
- Interim dividend of A 1.7 cents paid in October, final dividend of A 2.5 cents announced – Total annual dividends of A 4.2 cents per share, yield on IPO listing price of 8.4%

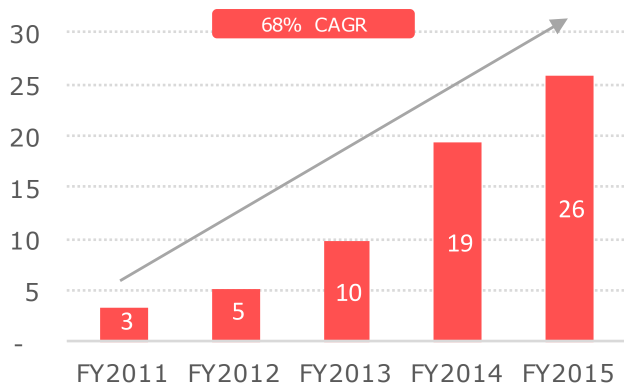
History of strong growth

Profit improving ahead of clinic growth as proportion of owned clinics increases

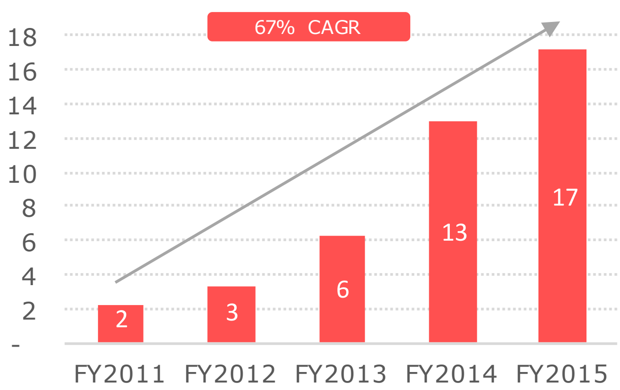
Revenue ($A million)



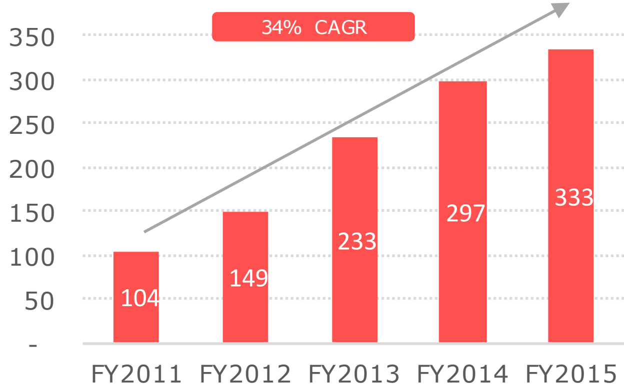
EBITDA ($A million)



NPAT ($A million)



Total Clinics



Prospectus guidance assessment

Prospectus targets exceeded

Year ended 31 December ($A million)	FY15 Actual	FY15 Prospectus forecast	+ / (-)	Achieved
Revenue	44.8	41.7	7%	●
Gross Profit	30.0	26.6	13%	●
Gross Margin	*67%*	*64%*	*3%*	●
NPBT	24.8	21.7	14%	●
NPAT	17.1	15.9	8%	●
Additional Franchises	36	35	1	●
No. of franchise clinics	314	321	(7)	●
No. of owned clinics	19	11	8	●
Total no. of clinics	333	332	1	●

- The company has delivered results for FY15 in the whole above prospectus forecasts largely been driven by the greater than expected number of owned clinics purchased and a favourable exchange rate over the period
- The total number of franchised clinics did not reach the prospectus forecast due to a larger number of franchise buybacks occurring in late FY15, this is however inline with TTCs stated strategy to grow the owned clinic base
- Total clinic number slightly exceeded the prospectus forecasts

Summary Balance Sheet

Strong Balance Sheet with a net cash position of A$30.7 million

Balance Sheet summary	FY15	FY14	+/(-) FY14 %
	A$ millions		
Assets			
Cash and cash equivalents	30.7	15.2	102%
Prepayments	0.4	0.5	(20%)
Other Assets	0.3	-	N/A
Total Current Assets	31.4	15.7	100%
Other receivables			
Property, Plant and equipment	35.4	32.0	11%
Intangible assets	10.4	0.6	1,633%
Deferred tax	0.9	0.3	200%
Total Non Current Assets	46.7	32.9	42%
Total Assets	78.1	48.6	61%
Liabilities			
Borrowings	0.1	0.1	0%
Current tax liabilities	2.5	2.1	19%
Other payables	5.4	0.9	500%
Other liabilities	0.3	0.2	50%
Deferred revenue	10.9	9.5	15%
Total Current Liabilities	19.2	12.8	50%
Deferred revenue	12.4	16.8	(26%)
Total Non Current Liabilities	12.4	16.8	(26%)
Total Liabilities	31.6	29.6	7%
Net Assets	46.5	19.0	145%
Contributed Equity	17.9	4.3	316%
Reserves	6.9	4.8	44%
Retained Earnings	21.7	8.9	144%
Non-controlling interest	-	1.0	(100%)
Total Equity	46.5	19.0	145%

- Significant cash increase due to improved operating cash flow resulting from growth in owned and franchised clinics and IPO proceeds
- PPE and Intangibles increased because of the buyback of 8 franchised clinics
- The increase in other payable represents amounts still payable on the buyback of clinics
- Deferred revenue represents prepaid franchise and training fees. The reduction of non-current deferred revenue is due to the change in 2014 from 5 years Franchise fees in advance to 1 year in advance
- Contributed equity increased due to IPO proceeds net of costs
- Cash will also be required in relation to fitout of the new office building and rollout of new IT systems

Summary Cashflow

Cash flows strengthening as franchise network rollout continues

Cash flow summary	FY15	FY14	+/(-) FY14 %
	A$ millions		
Receipts from customers	39.9	27.8	44%
Payments to suppliers and employees	(18.5)	(10.7)	73%
Interest received	0.1	0.1	0%
Income tax paid	(7.2)	(5.0)	44%
Operating Cash Flow	14.3	12.2	17%
Acquisition of clinics, net of cash acquired	(8.8)	0.0	n/r
Purchase of Property, Plant and Equipment	0.0	(1.7)	n/r
Loans to shareholders	0.0	(8.6)	n/r
Loan repayments made by shareholders	0.0	0.9	n/r
Net Cash Investing Activities	(8.8)	(9.4)	(6%)
Capital contribution	15.0	0.0	n/r
Share issue transaction costs	(2.2)	0.0	n/r
Advance from shareholders	0.0	0.1	n/r
Loan repayments made to shareholders	0.0	(0.8)	n/r
Dividends paid to non-controlling interests	0.0	(1.4)	n/r
Dividends paid to company's owners	(3.8)	(5.2)	(27%)
Net Cash Financing Activities	9.0	(7.3)	(223%)
Net Cash Increase / (Decrease)	14.5	(4.5)	(422%)
Cash at beginning of year	15.2	18.8	(19%)
Effect of exchange rate	1.0	0.9	11%
Cash at end of year	30.7	15.2	102%

- The increase in receipts from customers results from 36 new franchises and the buyback of 8 clinics
- The cash payment for acquisitions was for the 8 clinics acquired in FY15. $5.4m is still payable for these clinics
- The reduction in loans to shareholders resulted from the restructure in preparation for the IPO that raised $15m
- $30.7m in available cash to continue the acquisition strategy and fund the final payment for new HO Building, IT upgrades and the amount payable for the FY15 acquisitions as outlined above

Outlook

- Highly motivated to execute strategy and deliver strong earnings growth to shareholders

- The results for the 8 acquisitions completed late in FY15 are slightly ahead of EBITDA budget by 1.5%. Thereby confirming the underlining EBITDA pricing on which the acquisition consideration was calculated

- Trading to date for the month of January is ahead of EBITDA budget by 8%

- Budgeting to set up a minimum of 35 new franchises in 2016 and buyback a minimum of 10 existing

- Commence set up a new greenfield clinic and new head office

- Overall EBITDA growth in 2016 is budgeted to increase by between 25 and 30%

Capital structure and corporate governance

Major shareholders

Hwazon Investment Limited Founders investment vehicle	**70.3%**
Xiaobei Huang	**4.2%**
Virtue Link Holdings Limited	**4.1%**
Best Scenery Investments Limited	**4.1%**
Talent Felicity Ltd	**2.1%**
Asia Glory Technology Limited	**1.6%**
IPO Includes institutional and retail investors	**13.6%**
Total Shareholding	**100.0%**

Corporate Governance

- 3 out of 5 Board Members are independent non-executive Australian directors
- Regulation in accordance with ASX, ASIC, Company Law of the PRC, and Hong Kong Company Law
- Lisa Dalton appointed as company secretary with significant corporate governance experience

Benefits of listing on the ASX

Benefits of the IPO and listing on the ASX for TTC include:

- Injection of A$15 million into the business to help fund future growth
- ASX was preferred over other international exchanges due to time frame and complexity
- Australian shareholders are largely aware and desire exposure to China's consumer spending growth
- The ASX is well regulated and provides transparency to TTCs business partners and franchisees
- The longer term attraction to take Australian branded products through the network to the Chinese customers

Board of Directors

Andrew Sneddon, Chairman

PWC Partner (33yrs, 18 as partner)
Lead partner of the Technology/Life Sciences Practice)
Extensive experience in:

- Assurance under Australian and US GAAP;
- M&A and listing experience as Investigating Accountant on ASX and NASDAQ listings

Currently Chairman of ServiceRocket Inc., TGR Bioscience, Elastagen & Fusion Payments, Non Executive Director of Clearview Wealth and Innate Immunotherapeutics, on the Compliance and Audit Committee for Crescent Capital Partners

Jeff Fisher, Non-executive Director

Currently CEO of Bondi Pizza chain of casual dining restaurants. Prior to this, Jeff was CEO of franchise group “Oporto” from 2003 to 2011. Previous management roles with Coles Myer, Barbeques Galore, The Warehouse Group and John Danks

Glen Lees, Non-executive Director

Glen is a Chartered Accountant. He is currently the CFO of Bondi Pizza. Glen was previously the CFO of Oporto from 1997-2011. Previous roles with Coopers and Lybrand (Audit) and Howarth’s (Insolvency)

As CEO and CFO, Jeff and Glen built Oporto from 5 franchised stores to 150 franchised stores. They achieved two separate rounds of PE investment by Quadrant in 2007 and Archer in 2011. Prior to 2011, they successfully established franchised operations of Oporto in China

Board of Directors and key management

Zhirong Hu, Founder & Managing Director

Chongqing native (Largest municipality in world, services ~37.0m people, previous capital of China)
• Founder and 90.3% shareholder prior to IPO (Including family who owned 18.6% pre IPO)
• Member of Chongqing Committee of the Political Consultative Conference and Vice President of China Chain Store and Franchise Association
• Winner of multiple awards nationally and locally, including:
- "The Most Remarkable Business Woman of China" by China General Chamber of Commerce;
- "Most Excellent Individual contributing to the transfer, training and employment of the rural work force" by Central Government Of China; and
- "The Best Female Entrepreneur in Chongqing" by the Chongqing provincial government
- Key figure involved in drafting industry standards with Government

Sanzheng Zhang, Executive Director & CEO

• Bachelor degree from School of Central Committee of Communist Party of China
• Qualified accountant
• With TTC for 14 years
• Holds 4.95% pre IPO
• 40 years involvement in financial and business management.
• Prior to TTC was vice executive officer and chief accountant in a PRC military enterprise

John Wu, CFO

• M Com (Finance) UNSW, CPA, Chartered Management Accountant & Chartered Global Management Accountant
• Consultant of CPA Australia
• Non Executive Director and Chairman of Audit Committee of Blackgold International Holdings Ltd. (ASX: BGG)
• Various financial management positions with multinational companies in Hong Kong, Australia, and New Zealand such as Toyota, Nestle, British America Tobacco and Deloitte