



## **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 2016***

## 1 Details of the reporting period

**Current Period:** 1 January - 31 December 2016

**Previous Corresponding Period:** 1 January - 31 December 2015

## 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	30%	58,421
2.2	Profit from ordinary activities after income tax	Decrease	(1%)	16,951
2.3	Net profit attributable to members	Decrease	(1%)	16,951

### 2.4 Final dividend

The final dividend announcement will be made when the annual report is published.

### 2.5 Explanation of Results

#### ➤ Comparison of FY2016 Results to FY2015 Results

Year Ending 31 December	FY2016 A\$'000	FY2015 A\$'000	Change
<b>Revenue</b>	58,421	44,799	30%
<b>Gross profit</b>	32,563	30,042	8%
<b>Gross margin</b>	55.7%	67.1%	(17%)
<b>Profit before income tax</b>	25,979	24,780	5%
<b>Profit after income tax</b>	16,951	17,127	(1%)
<b>New franchised clinics</b>	38	36	6%
<b>Number of franchised clinics</b>	345	314	10%
<b>Number of owned clinics</b>	26	19	37%
<b>Total number of clinics</b>	371	333	11%

#### ➤ Revenue

FY2016 recorded a 30% increase in revenue from \$44.80 million in FY2015 to \$58.42 million in FY2016. This strong growth was driven by:

- An increase in owned clinics revenue from \$24.36 million in FY2015 to \$38.52 million in FY2016 primarily due to the following factors:
  - The full year impact of 8 new owned clinics acquired in the last quarter of FY2015. This contributed an additional \$14 million in revenue during FY2016;
  - The acquisition of 3 new owned clinics in the first half of 2016 contributed an additional \$2.5 million in revenue during FY2016.
  - The growth of the existing 11 clinics contributed \$0.5 million in revenue in FY2016;
  - The increase in revenue was, however, offset by the nation-wide introduction of the 6% value-added tax in May 2016 which caused a \$1.6 million decrease in revenue from owned clinics in FY2016;

- A slight increase in franchised clinics revenue by \$0.40 million from \$19.50 million to \$19.90 million. The increase in revenue from the granting of 38 new franchise agreements in FY2016 and the full year impact of the 36 new franchised clinics in FY2015 was also affected by the 6% value-added tax implemented in May 2016.
- Average RMB: A\$ exchange rate rose from 4.68 in FY2015 to 4.94 in FY2016. This resulted in a decrease of A\$3.2 million in total revenue during FY2016.

➤ **Profit and Operating Costs**

**(A) Gross Profit**

Gross Profit increased by 8.3% or \$2.52 million in FY2016 due to the growth in revenue from the franchised and owned clinics as outlined above.

**(B) Gross Profit Margin**

Gross Profit Margin decreased from 67% to 56% due to the impact of the operating costs of the clinics acquired in late FY2015 and FY2016 and a \$3 million increase in commissions paid to the therapists. The change of the commission rate from 21% to 35% in July 2016 was a management decision to incentivise the therapists as a long-term staff retention measure.

**(C) Operating Costs**

In FY2015, one off costs associated with the IPO of \$0.86 million were charged to operating costs. Excluding the impact of this amount, operating costs including Selling and Distribution Expenses, General and Administrative Expenses and Other Expenses in FY2016 increased by \$1.1 million mainly due to the following factors:

- The full year impact of the Australian HO office costs in FY2016 of \$0.37 million
- Extra owned clinics' promotional costs of \$0.18 million;
- Additional consulting fees of \$0.27 million which were mainly related to the consultancy fees paid for the Dividend Reinvestment Plan; and
- An increase in the expense of options and performance rights issued to new and ex-directors of \$0.28 million.

The increase in the RMB: A\$ exchange rate from 4.68 in FY2015 to 4.94 in FY2016 resulted in a decrease of operating expenses by A\$0.4 million. A foreign exchange loss of \$0.25 million was incurred in FY2016.

**(D) Net Profit After Tax**

Net Profit After Tax has slightly decreased from \$17.1 million in FY2015 to \$17.0 million in FY2016 due to the higher income tax expense in FY2016 which was attributed to the A\$1.1 million increase in the 10% China withholding tax in respect of the two dividends paid out in FY2016.

### 3 Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the Year Ended 31 December 2016 *(This statement is based on accounts, which are in the process of being audited)*

	<b>Consolidated</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	58,421	44,799
Cost of revenue	(25,858)	(14,757)
<b>Gross profit</b>	<b>32,563</b>	<b>30,042</b>
Selling and distribution expenses	(673)	(497)
General and administrative expenses	(4,686)	(4,864)
Other expenses	(952)	(673)
Finance costs	(167)	(64)
Finance income	140	117
Other income/ (loss)	(246)	719
<b>Profit before income tax</b>	<b>25,979</b>	<b>24,780</b>
Income tax expense	(9,028)	(7,653)
<b>Profit after income tax expense</b>	<b>16,951</b>	<b>17,127</b>
<b>Other comprehensive income</b>		
<i>Items that maybe reclassified subsequently to profit or loss</i>		
Foreign currency translation	(2,811)	114
<b>Total comprehensive income</b>	<b>14,140</b>	<b>17,241</b>
<b>Profit for the year is attributable to:</b>		
Non-controlling interest	-	253
Owners of Traditional Therapy Clinics Limited	16,951	16,874
	<b>16,951</b>	<b>17,127</b>
<b>Total comprehensive income for the year is attributable to:</b>		
Non-controlling interest	-	350
Owners of Traditional Therapy Clinics Limited	14,141	16,891
	<b>14,141</b>	<b>17,241</b>
<b>Earnings per share:</b>		
Basic earnings per share (cents)	<b>7.4<sup>1</sup></b>	<b>15<sup>1</sup></b>
Diluted earnings per share (cents)	<b>7.4</b>	<b>15</b>

<sup>1</sup> 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 228,413,762 in FY2016 and 115,963,605 in FY2015.

#### 4 Consolidated Statement of Financial Position

As at 31 December 2016 *(This statement is based on accounts, which are in the process of being audited)*

	Consolidated	
	31.12.2016 \$'000	31.12.2015 \$'000
Cash and cash equivalents	33,385	30,741
Other receivables	90	13
Prepayments	3,167	444
Other assets	16	221
<b>Current assets</b>	<b>36,658</b>	<b>31,419</b>
Property, plant and equipment	28,474	35,452
Intangible assets	17,216	10,385
Deferred tax	569	861
<b>Non-current assets</b>	<b>46,259</b>	<b>46,698</b>
<b>Total assets</b>	<b>82,917</b>	<b>78,117</b>
Borrowings	-	85
Current tax liabilities	3,416	2,485
Other payables	3,126	5,454
Other liabilities	425	305
Deferred revenue	10,912	10,878
<b>Current liabilities</b>	<b>17,879</b>	<b>19,207</b>
Deferred revenue	7,650	12,382
<b>Non-current Liabilities</b>	<b>7,650</b>	<b>12,382</b>
<b>Total liabilities</b>	<b>25,529</b>	<b>31,589</b>
<b>Net assets</b>	<b>57,388</b>	<b>46,528</b>
Contributed equity	23,112	17,888
Reserves	5,047	6,905
Retained earnings	29,229	21,735
<b>Total equity</b>	<b>57,388</b>	<b>46,528</b>

**5 Consolidated Statement of Changes in Equity**

**For the Year Ended 31 December 2015** *(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	Non- controlling interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated 2015</b>							
<b>Balance at 31 December 2014</b>	4,276	1,947	2,874	-	8,857	1,021	18,975
Profit for the year	-	-	-	-	16,874	253	17,127
Other comprehensive income for the year, net of tax	-	-	17	-	-	97	114
<b>Total comprehensive income for the year</b>	-	-	17	-	16,874	350	17,241
<b>Transaction with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction cost	13,392	-	-	-	-	-	13,392
Acquisition of Non-controlling interest	220	133	138	-	880	(1,371)	-
Appropriation to surplus reserve	-	1,123	-	-	(1,123)	-	-
Share based payments	-	-	-	673	-	-	673
Dividends paid	-	-	-	-	(3,753)	-	(3,753)
<b>Balance at 31 December 2015</b>	<b>17,888</b>	<b>3,203</b>	<b>3,029</b>	<b>673</b>	<b>21,735</b>	<b>-</b>	<b>46,528</b>

**Consolidated Statement of Changes in Equity (continued)**

**For the Year Ended 31 December 2016** *(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	Non- controlling interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated 2016</b>							
<b>Balance at 31 December 2015</b>	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)
<b>Total comprehensive income for the year</b>	-	-	(2,811)	-	16,951	-	14,140
<b>Transaction with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction cost	5,224	-	-	-	-	-	5,224
Acquisition of Non-controlling interest	-	-	-	-	-	-	-
Appropriation to surplus reserve	-	-	-	-	-	-	-
Share based payments	-	-	-	953	-	-	953
Dividends paid	-	-	-	-	(9,457)	-	(9,457)
<b>Balance at 31 December 2016</b>	23,112	3,203	218	1,626	29,229	-	57,388

**6 Consolidated Statement of Cash Flows**

**For the Year Ended 31 December 2016** *(This statement is based on accounts, which are in the process of being audited)*

	<b>Consolidated</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	55,080	39,962
Payments to suppliers and employees	(29,603)	(18,530)
Interest received	140	116
Income tax paid	(7,718)	(7,233)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>17,899</u>	<u>14,315</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of clinics, net of cash acquired	(15,095)	(8,756)
Purchase of property, plant and equipment	(19,771)	-
Refund received in relation to purchase of building	25,886	-
<b>CASH USED IN INVESTING ACTIVITIES</b>	<u>(8,980)</u>	<u>(8,756)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	5,183	15,000
Share issue transaction costs	(294)	(2,242)
Loan repayments made to shareholders	(82)	-
Dividends paid to company's owners	(9,123)	(3,753)
<b>CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<u>(4,316)</u>	<u>9,005</u>
<b>NET INCREASE / (DECREASE) IN CASH</b>	4,603	14,564
<b>CASH AT BEGINNING OF YEAR</b>	30,741	15,158
Effect of exchange rate changes on cash and cash equivalents	(1,959)	1,019
<b>CASH AT YEAR END</b>	<u><u>33,385</u></u>	<u><u>30,741</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
31 October 2016	FY2016 Interim	Paid	\$3,938,410	1.70 cents	0 cents	1.70 cents
20 April 2016	FY2015 Final	Paid	\$5,519,300	2.50 cents	0 cents	2.50 cents

## 8 Net tangible assets per ordinary share

	31.12.2016	31.12.2015
	Cents	Cents
Net tangible assets per ordinary share	17.3	31

## 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:

- In the first half year of 2016, the Group mutually terminated the property purchase agreement of a new office building in Chongqing China. The developer has fully refunded the purchase money paid in the prior years (RMB 128 million) to the Group before the end of 2016. In December 2016, the Group proceeded to acquire another new head office building within Chongqing City's main financial district. The new building costs RMB92.53 million or A\$18.46 million (at an exchange rate of 5.01)
- As in the previous years, the Company continued its focus on growing the number of franchised clinics, opening an additional 38 clinics;
- The Company also continued to focus on its core strategy of growing the number of owned clinics and acquired a further 7 clinics from its existing franchise base. The 7 clinics were acquired at a multiple of between 3 and 3.5 times of EBITDA.

- 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.