TBG Diagnostics Limited

ABN 82 010 975 612

APPENDIX 4D – INTERIM FINANCIAL REPORT
RESULTS FOR ANNOUNCEMENT TO THE MARKET

Appendix 4D item 2.1 **Revenue from ordinary activities**.	Revenues decreased 5.2% from previous corresponding period to $1,670,395.
Appendix 4D item 2.2 **Profit (loss) from ordinary activities after tax attributable to members.**	Loss increased 122.2% from previous corresponding period to $2,212,865
Appendix 4D item 2.3 **Net profit (loss) for the period attributable to members.**	Loss increased 122.2% from previous corresponding period to $2,212,865
Appendix 4D item 2.4 and 2.5 **The amount per security and franked amount per security of final and interim dividends.**	No dividends have been paid or declared during the period and the directors do not recommend the payment of a dividend in respect of the half-year ended 30 June 2018. Dividends are not expected to be paid or declared in the immediate term.
Appendix 4D item 2.6 **A brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.**	See attached Directors' Report for an explanation of items 2.1, 2.2 and 2.3.
Appendix 4D item 3 **Net tangible assets per security**.	30 June 2018: 5.8 cents 31 December 2017: 6.5 cents
Appendix 4D item 4.1 **Entities over which control has been gained.**	N/A
Appendix 4D item 4.2 **The date of the gain of control.**	N/A
Appendix 4D item 4.3 **Contribution to profit from ordinary activities.**	N/A

Appendix 4D items 5, 6, 7, and 8 are not applicable.

Interim Financial Report
For the half-year ended 30 June 2018

ASX HALF-YEAR INFORMATION – 30 June 2018
Lodged with the ASX under Listing Rule 4.2A. This report should be read in conjunction with TBG Diagnostics Limited's 31 December 2017 Annual Report.

Contents

DIRECTORS' REPORT

The Board of Directors of TBG Diagnostics Limited and its controlled entities ('TBG' or 'the Company') present their report on the Company for the half-year ended 30 June 2018.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as below.

Mr Indrajit Arulampalam	(Executive Chairman)
Mr Eugene Cheng	(Chief Operating Officer – TBG Diagnostics Limited /Chief Executive Officer – TBG Inc)
Ms Emily Lee	(Non-Executive Director)
Dr Stanley Chang	(Non-Executive Director)
Mr Edward Chang	(Non-Executive Director) – resigned 28 May 2018
Mr Hsi Kai (C.K.) Wang	(Non-Executive Director) – appointed 28 May 2018

Officer

Mr Justyn Stedwell	(Company Secretary)

Review of Operations

The loss for the six months ended 30 June 2018 was $2,303,646 compared to a loss of $995,954 for the six months ended 30 June 2017. The variance is primarily due to the research and development tax incentive rebate received in 2017 pertaining to 2016 financial year. This was further coupled by a decline in sales revenues during the period and increase in selling expenses.

Administrative and Corporate Expenses

Administrative and corporate expenses decreased 3.6% to $1,937,030 (2017: $2,009,880). During 2017, some legal and other management consultancy fees were incurred in relation to a potential acquisition that did not eventuate. Further, foreign exchange losses from foreign currency transactions and foreign currency reserves were incurred in 2017. This was in spite of formation costs incurred during the half year ended 30 June 2018 in relation to the newly formed genetic testing subsidiary in Xiamen, China.

DIRECTORS' REPORT (continued)

Research and Development (R&D) Expenses
Research and development expenditure decreased 6.1% to $1,385,472 (2017: $1,476,176) during the six months ended 30 June 2018. In 2017 prior year, pre-production and inspection costs were incurred for some transplantation and virus detection products that have progressed significantly to clinical trials. European CE-Mark certification was also granted for the product *ExProbe™ SE HLA ABCDRDQ* (ExProbe™) Typing Kit as well as regulatory approval in Taiwan. CFDA approval was also received for a portfolio of HLA genotyping kits in China.

Research and Development (R&D) Expenses

The primary activities of the R&D division during the period pertained to the development of various detection kits for various diseases which are as follows:

Transplantation

Clinical studies have clearly shown that HLA gene matching between the donor and recipients of organs and stem cell transplants are key prognostic markers of the transplant success rate including immediate rejection as well as long term survival of the transplanted organ/cell. The applications of HLA genotyping not only includes the traditional donor matching against transplant recipients, but also to establish a global database of HLA typed donors from healthy blood donors or donated cord bloods, determine potential adverse drug reactions, and lastly, the diagnostic of specific autoimmune diseases. IVD products are currently provided for both LOW and HIGH resolutions.

Blood Safety
Once blood has been collected by the blood bank, every unit of blood must be screened for the presence of specific pathogenic microorganisms. While each blood centre across the globe has adopted different screening protocols, most of them will screen for Hepatitis B virus (HBV), Hepatitis C virus (HCV), and Human Immunodeficiency Virus (HIV).

Oncology

Molecular diagnostics in the field of oncology are now growing rapidly. Oncology tests can be used for many different indications, including screening to identify patients at risk of developing cancer, screening for early detection of cancer, determining prognosis, predicting response to therapy and monitoring patients both during and after treatment.

Infectious Disease

Molecular diagnostics for infectious diseases has been widely used and it is currently the largest application for molecular diagnostics. The driving force behind future infectious IVD testing market expansion will be the detection of hospital acquired infection, sexually transmitted diseases and human papilloma virus (HPV).

Hereditary Genetics Testing

Genetic testing identifies specific inherited changes in a person's chromosomes, genes, or proteins. Genetic mutations can have harmful, beneficial, no effect, or cause uncertain effects on health. Genetic testing can confirm whether a condition is, indeed, the result of an inherited syndrome. Genetic testing is also performed to determine whether family members without obvious illness have inherited the same mutation as a family member who is known to carry a disease-associated mutation. We currently provide HLA B27 IVD products for Ankylosing Spongyditis as well as HLA-DQB IVD Products for Celiac and Narcolepsy.

DIRECTORS' REPORT (continued)

A total solution

In order to provide a "sample to answer" workflow, TBG is also developing a fully integrated automation system based on Real Time PCR technology. Built upon this system, we aim to advance efficiency and accelerate results, ultimately improving the quality of products, reducing laboratory costs, and operator safety.

Selling expenses

Selling expenses increased 38.5% to $590,074 (2017: $426,146). At 30 June 2018, TBG incurred increased marketing costs in relation to product launches, overseas exhibition participations, and related travel costs to introduce its products in Mainland China. The group's genetics lab testing subsidiary, Xiamen BioBay Medical Health, was also introduced and fully launched as the group's business hub in the BioBay region of China. Sales formation costs and related marketing ceremonies were incurred in relation to this. Furthermore, sales commissions and fees to external parties in relation to product sales were incurred in Taiwan.

Gain on Discontinued Operations

Gain on discontinued operations of $210,489 at 30 June 2018 (2017: $575,119) pertained to interest and other income resulting from early settlement of the deferred consideration from the sale of PharmaSynth Pty Ltd to LuinaBio Pty Ltd. The gain on discontinued operations in 2017 pertained to interest accrued arising from the deferred receivable from the sale of PharmaSynth to LuinaBio and PG545 to Zucero.

Revenue and Other Income

Total revenues earned during the period decreased 5.2% to $1,670,395 in 30 June 2018 (2017: $1,762,020) due to decrease in sales mainly with the related party, Medigen Biotechnology Corp. Of the total sales revenues, $391,788 or 23% pertained to sales to the related party, Medigen (2017: $906,747 or 56%). The decline in sales revenues were mainly attributed to sales rebate incentives granted to a major sales distributor for having met the agreed sales targets. This was inspite of new customers obtained during the period.

Other income significantly decreased 82.1% to $187,695 (2017: $1,050,014) mainly due to the research and development tax incentive rebate received in prior year of $1,012,341 pertaining to the 2016 financial year.

Significant Changes in the State of Affairs

Amended Deed of Agreement with Zucero Therapeutics Pty Ltd

As announced on 22 August 2016, the Company entered into a binding agreement to sell the PG500 assets to Zucero Therapeutics Ltd ('Zucero') for a total deferred consideration of $6,000,000 payable in August 2019. The Company has negotiated the right to be able to convert the deferred consideration into equity such that the Company will hold 20% of the total issued share capital of Zucero, under certain specific circumstances. In order to secure payment of the deferred consideration and protect the Company's interests, the parties have entered into security interest agreements and a guarantee.

Remaining losses applicable to the write down of the value of intangibles to recoverable amount were recognised as part of discontinued operations.

DIRECTORS' REPORT (continued)

Amended Deed of Agreement with Zucero Therapeutics Pty Ltd

On 23 February 2017, a Deed of Variation was executed whereby the Company gave the buyer, Zucero, a right to make an early payment of the deferred payment, subject to occurrence of a $4 million capital raising event. This allows the buyer to pay the deferred payment by way of a $1,999,000 cash payment and $4 million in Zucero shares. This right must be exercised before 31 December 2017 or the original agreement is enforceable. This did not occur during the period.

On 7 May 2018, TDL accepted and signed an agreement deed with Zucero Therapeutics whereby TDL granted irrevocable rights to Zucero to satisfy the deferred payment prior to 31 December 2018, the conversion end date, by converting the Convertible Deferred Payment portion of $4 million into QF Shares, subject to the buyer completing a qualified Financing Event and other relevant conditions; and pay the seller the Cash Deferred Payment portion of $1.9 million.

Changes to board of directors

On 28 May 2018, Mr Edward Chang resigned as non-executive director of the group. Following his resignation, Mr CK Wang was appointed as non-executive director of the group.

Significant Events After the Reporting Date

There were no significant events that have occurred after the reporting date.

Liquidity and Cash Resources

At 30 June 2018 cash and cash equivalents amounted to $6,452,172 compared to $7,918,213 at 31 December 2017. During the six months ending 30 June 2018, the Company disbursed $5,251,881 to fund its normal operations, collected $2,334,044 from its trade customers. The group also received an amount of $63,636 from the government of Xiamen in China.

Rounding of Amounts

For the half year ended 30 June 2018 amounts contained in this report and in the financial report have been rounded to the nearest dollar.

DIRECTORS' REPORT (continued)

Auditor Independence
The independence declaration of the Company's auditors is on page 9 and forms part of this report.

This report has been made in accordance with a resolution of directors.

Jitto S. Arulampalam
Executive Chairman
Brisbane, 30 August 2018

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DECLARATION OF INDEPENDENCE T R MANN TO THE DIRECTORS OF TBG DIAGNOSTICS LIMITED

As lead auditor for the review of TBG Diagnostics Limited for the half-year ended 30 June 2018, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of TBG Diagnostics Limited and the entities it controlled during the period.

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 30 August 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 30 June 2018

		Consolidated	
		6 months ended 30 June 2018	6 months ended 30 June 2017
	Note	$	$
REVENUE FROM CONTINUING OPERATIONS	5(a)	**1,670,395**	**1,762,020**
Cost of Sales		459,649	470,904
Gross Profit		**1,210,746**	**1,291,116**
Other income	5(b)	187,695	1,050,013
Expenses			
Administrative and corporate expenses		(1,937,030)	(2,009,880)
Research and development expenses		(1,385,472)	(1,476,176)
Selling expenses		(590,074)	(426,146)
		(3,912,576)	**(3,912,202)**
Loss before income tax expense		**(2,514,135)**	**(1,571,073)**
Income tax expense		-	-
LOSS FROM CONTINUING OPERATIONS		**(2,514,135)**	**(1,571,073)**
DISCONTINUED OPERATIONS			
Gain from discontinued operation	6	210,489	575,119
NET LOSS FOR THE PERIOD		**(2,303,646)**	**(995,954)**
Other comprehensive income (loss)			
Items that may be reclassified to profit or loss:			
Foreign currency translation		410,113	(220,122)
OTHER COMPREHENSIVE INCOME (LOSS)		410,113	(220,122)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		(1,893,533)	(1,216,076)
Net loss attributable to:			
Equity holders of the Company		(2,212,865)	(995,954)
Non-controlling interest		(90,781)	-
Total comprehensive income (loss) attributable to:			
Equity holders of the Company		(1,800,823)	(1,216,076)
Non-controlling interest		(92,710)	-
Basic and diluted loss per share (cents per share) – continuing operations attributable to equity holders of the Company		(1.11)	(0.46)
Basic and diluted (loss) per share (cents per share)		(1.02)	(0.46)

The accompanying notes form an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	Consolidated 30 June 2018 $	Consolidated 31 December 2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7	6,452,172	7,918,213
Trade and other receivables		539,021	1,169,767
Inventories		1,187,033	781,059
Prepayments and other current assets		1,209,297	859,818
Receivables and other assets	8	-	957,038
Total current assets		9,387,523	11,685,895
Non-current assets			
Receivables and other assets	8	665,851	901,178
Plant and equipment		3,602,350	3,047,433
Intangible assets		901,683	755,977
Total non-current assets		5,169,884	4,704,588
TOTAL ASSETS		**14,557,407**	**16,390,483**
LIABILITIES			
Current liabilities			
Trade and other payables	9	909,469	1,357,424
Provisions		15,415	18,987
Total current liabilities		924,884	1,376,411
Non-current liabilities			
Provisions		21,477	20,336
Total non-current liabilities		21,477	20,336
TOTAL LIABILITIES		**946,361**	**1,396,747**
NET ASSETS		**13,611,046**	**14,993,736**
EQUITY			
Contributed equity	10	36,211,120	36,211,120
Reserves		3,233,853	2,723,660
Accumulated losses		(26,542,987)	(24,330,122)
Capital and reserves attributable to owners of TBG Diagnostics Ltd		12,901,986	14,604,658
Non-controlling interests	14	709,060	389,078
TOTAL EQUITY		**13,611,046**	**14,993,736**

The accompanying notes form an integral part of this Statement of Financial Position.

TBG DIAGNOSTICS LIMITED

STATEMENT OF CHANGES IN EQUITY
For the half-year ended 30 June 2018

	Attributable to owners of TBG Diagnostics Limited						
Consolidated	**Contributed Equity $**	**Accumulated losses $**	**Other reserves $**	**Foreign currency translation reserve $**	**Total $**	**Non-controlling interests $**	**Total equity $**
At 1 January 2017	36,211,120	(17,789,732)	139,852	2,426,930	20,988,170	-	20,988,170
Loss for the year	-	(995,954)	-	-	(995,954)	-	(995,954)
Other Comprehensive Income	-	-	-	(220,122)	(220,122)	-	(220,122)
Total Comprehensive Income for the year	-	(995,954)	-	(220,122)	(1,216,076)	-	(1,216,076)
Transactions with owners in their capacity as owners:							
Cost of share-based payments	-	-	111,882	-	111,882	-	111,882
At 30 June 2017	**36,211,120**	**(18,785,686)**	**251,734**	**2,206,808**	**19,883,976**	**-**	**19,883,976**
At 1 January 2018	**36,211,120**	**(24,330,122)**	**363,616**	**2,360,044**	**14,604,658**	**389,078**	**14,993,736**
Loss for the year	-	**(2,212,865)**	-	-	**(2,212,865)**	**(90,781)**	**(2,303,646)**
Other Comprehensive Income	-	-	-	**412,042**	**412,042**	**(1,929)**	**410,113**
Total Comprehensive Income for the year	-	**(2,212,865)**	-	**412,042**	**(1,800,823)**	**(92,710)**	**(1,893,533)**
Transactions with owners in their capacity as owners:							
Contribution of capital – non-controlling interest	-	-	-	-	-	**412,692**	**412,692**
Cost of share-based payments	-	-	**98,151**	-	**98,151**	-	**98,151**
At 30 June 2018	**36,211,120**	**(26,542,987)**	**461,767**	**2,772,086**	**12,901,986**	**709,060**	**13,611,046**

The accompanying notes form an integral part of this Statement of Changes in Equity.

STATEMENT OF CASH FLOWS
For the half-year ended 30 June 2018

		Consolidated	
		6 months ended	6 months ended
	Note	30 June 2018	30 June 2017
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,334,044	2,321,192
Payments to suppliers, employees and others		(5,251,881)	(4,159,725)
Research and development tax incentive received		-	1,012,341
Government grant		63,636	-
Interest received		36,810	32,637
Finance costs	5(f)	(10,296)	(4,773)
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES		(2,827,687)	(798,328)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash inflow from sale of subsidiaries	6(b)	1,800,000	-
Payments for plant and equipment		(1,037,484)	(115,310)
Payments of development costs		(125,479)	(132,006)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		637,037	(247,316)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling interests in subsidiary		412,692	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		412,692	-
Net (decrease) in cash held		(1,777,958)	(1,045,644)
Net foreign exchange differences		311,917	(361,483)
Cash and cash equivalents at the beginning of period		7,918,213	10,642,000
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7	6,452,172	9,234,873

The accompanying notes form an integral part of this Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 30 June 2018

1. CORPORATE INFORMATION

The half-year consolidated financial report for TBG Diagnostics Limited and its controlled entities ('TBG' or 'the Company') for the period ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 29 August 2018.

TBG Diagnostics Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange and the OTCQB Market under the ticker symbols TDL and TDLAF respectively.

The nature of the operations and principal activities of the Company are described in Note 3.

2. BASIS OF PREPARATION

This general purpose interim financial report for the half year ended 30 June 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual report of the Company for the year ended 31 December 2017 and any public announcements made by TBG Diagnostics Limited during the interim reporting period.

For the half year ended 30 June 2018, the amounts contained in this report and in the financial report have been rounded to the nearest dollar.

The accounting policies and methods of computation applied in this interim financial report are consistent with those applied in the previous financial year and the corresponding interim reporting period except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the group
A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the following standards:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet applied by the entity

AASB 16 Leases
AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $524,918. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

2. BASIS OF PREPARATION (Cont'd)

(b) Impact of standards issued but not yet applied by the entity (cont'd)

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

(c) Fair Values

The fair values of TBG's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

3. CHANGES IN ACCOUNTING POLICIES

(a) AASB 15 *Revenue from Contracts with Customers* – Impact of adoption

The group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in AASB 15, the group has adopted the new rules retrospectively however there was no material impact on the amounts disclosed previously and as a result there has been no restatement required as a result of reclassification or remeasurement. The group's updated accounting policies are shown below.

(b) AASB 15 *Revenue from Contracts with Customers* – Accounting policies

(i) Sale of goods
The Group manufactures and sells molecular diagnostics. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

The molecular diagnostics products are sometimes sold with retrospective volume discounts based on aggregate sales over a fixed period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) Technical service revenue
The Group provides technical services of HLA (Human Leukocyte Antigen) typing. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spent relative to the total expected labour hours.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

(b) AASB 15 *Revenue from Contracts with Customers* – Accounting policies (Cont'd)

(iii) Interest income
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iv) Financing components
The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

(v) Government grants
Government grants are recognised as revenue when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When grants ate received prior to being earned, they are recognised as a liability in the statement of financial position.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the costs that correspond to the income received are prior year costs, the grant received is immediately recognised in the profit or loss.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

(c) AASB 9 *Financial Instruments* – Impact of adoption
AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in note below. In accordance with the transitional provisions in AASB 9(7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Impairment of financial assets
The group has three types of financial assets that are subject to AASB 9's new expected credit loss model:

- trade receivables for sales of inventory and from the provision of consulting services;
- contract assets relating to Technical service revenue; and
- Receivables – non-current

The group was required to revise its impairment methodology under AASB 9 for each of these classes of assets. The was no material impact on the group's retained earnings and equity resulting from the change in impairment methodology.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, there was no material impairment loss identified.

Trade receivables and contract assets
The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

(c) AASB 9 *Financial Instruments* – Impact of adoption (cont'd)

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. On that basis, the loss allowance as at 1 January 2018 was determined to not differ materially from the impairment provision recognised at 31 December 2017 under AASB 139.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Receivables – non-current
As detailed in Note 8 the company has a non-current receivable relating to the disposal of Progen PG500 Series Pty Ltd. As at 31 December 2017 under AASB139 the group had fully impaired the balance of this receivable due to uncertainty around the recoverability.

Under AASB9 it is concluded that there has been a significant increase in credit risk and the lifetime expected credit losses have been recognised. On this basis a loss allowance for the full amount of the outstanding receivable has been recognised as at 1 January 2018 under AASB9.

As there was no material impact on the amounts disclosed previously there has been no restatement required as a result of reclassification or remeasurement.

AASB 9 *Financial Instruments* – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification
From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement
At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

AASB 9 *Financial Instruments* – Accounting policies applied from 1 January 2018 (cont'd)

Debt instruments
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Again or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment
From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

4. OPERATING SEGMENTS

The Company operates in the biotechnology industry. The Company's activities comprise the research, development, and manufacture of biopharmaceuticals. The operating segments are identified by executive management (chief operating decision makers) based on the nature of the activity.

Accordingly, management currently identifies the Company as having one reportable segment, the InVitro Diagnostics segment which is engaged with the research of biological drugs and the retail and wholesale of veterinary drugs with operations mainly in Taiwan and China. All revenue derived from continuing operations is from the InVitro Diagnostics segment and this is what has been reported in the financial statements.

5. REVENUE AND EXPENSES

Loss for the period includes the following specific items:

	Consolidated	
	6 months ended 30 June 2018 $	**6 months ended 30 June 2017 $**
(a) Revenues		
Sales revenue	1,508,748	1,549,691
Technical services revenue	161,647	212,329
	1,670,395	1,762,020
(b) Other income		
Research & development tax incentive	-	1,012,341
Interest revenue	36,810	30,258
Foreign exchange gain	86,377	6,236
Government grant	63,636	-
Other	871	1,178
	187,695	1,050,013
c) Minimum lease payments – operating leases	205,445	217,512
(d) Depreciation & amortisation	566,971	571,878
(e) Employee benefits		
Wages and salaries	1,439,644	1,134,106
Long service leave provision	(2,431)	1,992
Share-based payments	98,151	111,882
(f) Finance costs		
Bank charges	10,296	4,773

6. DISCONTINUED OPERATIONS

(a) Disposal of Progen PG500 Series Pty Ltd

On 22 August 2016, the Company announced that it had entered into a binding agreement to sell the PG500 assets to Zucero Therapeutics Ltd ('Zucero') for a total deferred consideration of $6,000,000 payable in August 2019. The Company has negotiated the right to be able to convert the deferred consideration into equity such that the Company will hold 20% of the total issued share capital of Zucero, under certain specific circumstances. In order to secure payment of the deferred consideration and protect the Company's interests, the parties have entered into security interest agreements and a guarantee.

6. DISCONTINUED OPERATIONS (cont'd)

On 23 February 2017, a Deed of Variation was executed whereby the Company gave the buyer, Zucero, a right to make an early payment of the deferred payment, subject to occurrence of a $4 million capital raising event. This allows the buyer to pay the deferred payment by way of a $1,999,000 cash payment and $4 million in Zucero shares. This right must be exercised before 31 December 2017 or the original agreement is enforceable. This did not occur during the period.

On 7 May 2018, the Company entered into an agreement deed with Zucero amending the terms under the Principal Document dated 16 August 2016 and Deed of Variation dated 23 February 2017, whereby the Company granted irrevocable rights to Zucero to satisfy the deferred payment prior to 31 December 2018, the conversion end date, by converting the Convertible Deferred Payment portion of $4 million into QF Shares[1], subject to the buyer completing a qualified Financing Event and other relevant conditions; and pay the seller the Cash Deferred Payment portion of $1.9 million.

[1]QF Shares means Ordinary Shares which are issued in connection with the Qualifying Financing Event

At 30 June 2018, the present value of the deferred consideration was $4,454,739 (31 December 2017: $3,926,738). This has been impaired due to uncertainty around the recoverability of this amount as disclosed in Note 7.

Interest revenue of $528,000 (6 months ended 30 June 2017: $409,398) has been recognised with a concurrent impairment provision recognised for the same amount. This has been recognised as part of discontinued operations.

(b) *Discontinued Operation - Disposal of PharmaSynth Pty Ltd*

On 23 February 2018, an early settlement proposal from Luina was made and accepted by the Company for $1,800,000 as final settlement of Luina's obligations in respect of the outstanding balance of $2.1 million. The interest and other income that arose from early settlement of the deferred consideration of Pharmasynth Pty Ltd on the sale to Luina Biotechnology Pty Ltd, as disclosed in Note 8, has been recognised as interest income and other income for the period. They have been included as components of the gain on discontinued operations which amounted to $210,489 (2017: $165,721) for the period.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents per the statement of financial position:

	30 June 2018 $	31 December 2017 $
Cash at banks and on hand	5,254,482	4,801,409
Short-term deposits	1,197,690	3,116,804
	6,452,172	7,918,213

8. RECEIVABLES AND OTHER ASSETS

	30 June 2018 $	31 December 2017 $
Receivables and other assets - Current		
Receivable from Luina Biotechnology Pty Ltd[1]	-	957,038
Receivables and other assets – Non-current		
Receivables – non-current[1]	4,454,739	4,559,211
Less allowance for impairment	(4,454,739)	(3,926,738)
Other non-current assets[2]	665,851	268,705
Receivables and other assets – Non Current	665,851	901,178

[1] The receivables relate to the disposal of Progen PG500 Series Pty Ltd and Pharmasynth Pty Ltd to Zucero and Luina Biotechnology Pty Ltd ('Luina') respectively.

The Company had entered into a Share sale and Purchase Agreement (SSPA) to sell its wholly owned biopharmaceutical manufacturing subsidiary, Pharmasynth to Luina in 4 March 2016 for a total consideration of $2.200,000, of which $100,000 was received as upfront initial payment. The balance of the deferred consideration is to be paid in two remaining instalments, $1,000,000 on 4 March 2018 and $1,100,000 on 4 March 2020 and was discounted to their fair value at the time of sale. On 23 February 2018, an early settlement proposal from Luina was made and accepted by the Company for $1.8 million as final settlement of Luina's obligations in respect of the outstanding balance of $2.1 million. This represents a discount of $300k to the purchase price in exchange for Luina agreeing to bring forward the second instalment by two years. The final settlement amount of $1.8 million was received on 2 March 2018.

The remaining balance of the non-current receivable at 30 June 2018 relates to the deferred consideration arising from the disposal of Progen PG500 Series Pty Ltd. Refer to note 6(a) for the description and details of the deferred consideration and its related present value.

[2] Includes bank guarantee held for the purpose of a vendor agreement for outsourced production services in Taiwan. The restricted assets have a carrying value of $177,380 (TWD $4 million) with an expiry date of 15 April 2021.

9. TRADE AND OTHER PAYABLES

	30 June 2018 $	31 December 2017 $
Trade creditors	305,278	699,622
Other creditors	604,192	657,802
Trade and other payables	909,469	1,357,424

10. CONTRIBUTED EQUITY

	30 June 2018		31 December 2017	
	Number of shares	Amount $	Number of Shares	Amount $
Beginning of the financial year	217,587,289	36,211,120	217,587,289	36,211,120
Issued during the period	-	-	-	-
End of the financial period	**217,587,289**	**36,211,120**	**217,587,289**	**36,211,120**

11. RELATED PARTY TRANSACTIONS

Related party transactions to ultimate parent, Medigen Biotechnology Corporation, a company incorporated in Taiwan*

	6 months ended 30 June 2018 $	6 months ended 30 June 2017 $
Revenues		
- Sale of goods	**391,788**	906,747
Purchases		
- Purchases of inventories	-	-
Office lease	**89,653**	175,190

	30 June 2018 $	31 December 2017 $
Receivables from related party		
- Trade receivables	**115,059**	587,854
Payables to related party		
- Trade and other payables	-	-

*Transactions with the related party are on normal commercial terms.

12. SUBSEQUENT EVENTS

There were no significant events that have occurred after the reporting date.

13. CONTINGENT LIABILITIES AND ASSETS

There was no change in contingent liabilities or assets from those disclosed in the 31 December 2017 annual report.

14. NON-CONTROLLING INTERESTS

The non-controlling interest is represented by Xiamen Haicang who owns 40% of the subscribed capital stock of Xiamen BioBay Medical Health Ltd. On 9 April 2018 Xiamen Haicang contributed a further CNY$2,000,000 (AUD$412,692) to Xiamen BioBay Medical Health Ltd during the period. This contribution was in proportion to the contribution made by the TBG of CNY$3,000,000 (AUD$620,271) (through Xia De (Xia Men) Biotechnology Holding Co.) resulting in the interest held by both parties remaining the same.

DIRECTORS' DECLARATION

In the director's opinion:

(a) the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

(b) the attached financial statements and notes thereto give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial half-year ended on that date; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors.

Jitto S. Arulampalam
Executive Chairman

Brisbane
30 August 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of TBG Diagnostics Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of TBG Diagnostics Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd

T R Mann
Director

Brisbane, 30 August 2018