Annual Report 2018

TBG Diagnostics Limited

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Company Timeline

Nov 2014
Xiamen plant established

Feb 2016
TBG Diagnostics Limited listed on ASX as TDL

May 2017
Xiamen Lab received ASHI accreditation

Jul 2017
ExProbe™ HLA typing kit receives CE Mark

Oct 2017
HLAssure™ SBT kit Receives CFDA

Nov 2017
Q6000 Receives CE mark

Jan 2018
New Distribution Channel for HLAssure™ SBT in China

May 2018
Xiamen Reference Lab established

Dec 2018
Signed agreement for ZhangYe acquisition with new investors ZhangYe and DongYuan

Company Background

TBG Diagnostics Limited (TDL) is a global molecular diagnostics company dedicated to the development, manufacture and marketing of molecular diagnostics kits, instruments and services.

With its research and development based in the US, Taiwan and China, TDL manufactures its products in its ISO13485 certified facilities in Xiamen, China serving the clinical labs of both hospitals and independent reference labs, blood centres and bone marrow registry labs around the world.

Our Vision and Mission

TBG's vision is to become one of the leading molecular diagnostics provider in the Asia Pacific region.

Due to its unparalleled performance in immune matching ability, molecular diagnostics is becoming an essential tool in helping the clinician with critical transplant decisions. TBG is continually pushing to the forefront of molecular testing for diagnostics. From the extraction of nucleic acids, amplification and detection of infectious diseases, genotyping and viral load testing, TBG is committed to expanding the applications of our core technology.

Chairman and Group COO's Address

Dear Shareholders

We are pleased to present to you the Annual Report of TBG Diagnostics Limited (TBG) for the year ended 31 December 2018

Financially, the Company ended the financial year with a net loss of $4.4 million at 31 December 2018. This is a decrease of $2.1 million from $6.5 million at 31 December 2017. This favourable result is attributed to improved sales performance from the China group (disposal group) in spite of its increased operating expenses. Additionally, income arising from the early settlement of the deferred receivable from the sale of PharmaSynth Pty Ltd was recognised. Further in 2017 financial year, research and development tax incentive rebate of $1.1 million in Australia was received and recognised as income.

During 2018, the Group was able to generate sales revenues of $4.7 million as compared with $4 million in 2017, out of which $3.1 million was contributed by the Taiwan subsidiary and $1.5 million was contributed by the China group. Results from the China group was shown as component of discontinued operations in the Statement of Profit or Loss and Other Comprehensive Income. Moving forward, we expect a favourable revenue growth overtime as we progress with our product developments and new distribution channels.

At 31 December 2018, the Group ended the financial year with cash and cash equivalents totalling $6.7 million (inclusive of cash and cash equivalents within discontinued operations) compared with $7.9 million at 31 December 2017. During 2018, the Company received a total of $1.8 million as full payment of the deferred receivable from Luina and $413k (CNY 2 million) as additional capital contribution in the Group's genetic testing subsidiary in China.

OPERATIONAL HIGHLIGHTS

Product registration and approval

We have received the European CE-Mark and Taiwan FDA market approval for the product ***ExProbe™ SE HLA ABCDRDQ*** (ExProbe™) Typing Kits based on qPCR technology which allows the groups' access to existing and new markets. We also received China FDA approvals for ***HLAssure™ SE SBT*** kits, a portfolio of high resolution Human Leukocyte Antigen (HLA) genotyping kits based on Sequence Based Typing (SBT) technology widely used in hematopoietic cell transplantation (HCT) in the treatment of leukemia, lymphoma, aplastic anemia and myelodysplastic syndromes. Currently, the approval is the first and only one in its kind in China and will be a significant driver of our sales growth in 2019. We have also received CE mark for TBG's real time PCR instrument ***Q6000™***, a state of the art 6 channel real time PCR instrument, which had been under development by our engineers for more than 2 years. ***Q6000™*** will be the platform for all our future real time PCR reagent products. It will also serve as a major component of our fully integrated automated system which is under development.

Furthermore, the group's Xiamen facility in China has been completed and has been accredited by the American Society for Histocompatibility and Immunogenetics (ASHI). This is an essential step to ensure that the group is delivering products and services that are of high quality and standards.

These developments mark the significant cornerstones towards achieving our objective to be one of leading molecular diagnostics provider in the Asian region in alignment with our growth and expansion strategy.

Business progress and product development

During 2018, six (6) new products in transfusion, autoimmunity and infectious diseases have entered the clinical trial stages and IVD approval processes and are expected to continue in 2019.

During 2018, the Group also obtained nine (9) new sales distributors and have expanded its distribution channel to three (3) new territories that increased its current distribution portfolio. These developments are attributed to the CFDA approval and CE mark certifications as described above and the completion of TBG Xiamen clinical reference laboratory which is considered vital in the group's molecular diagnostics business expansion in China.

Proposed acquisition of Zhangsha ZhangYe Medical Laboratory Corp

As announced on 17 December 2018, the Group has entered into an agreement (through its wholly owned subsidiary TBG Biotechnology Xiamen ("TBG Xiamen")) to acquire Zhangsha ZhangYe Medical Laboratory Corp. ("ZhangYe"), a company incorporated in China which conducts a business of providing medical laboratory testing services to hospitals and the community, and which is based in the city of Zhangsha in Hunan Province. Refer to Director's Report for details.

This new acquisition structure brings in an exciting opportunity for TBG Xiamen's potential to grow and expand its business further in the whole China markets. Through developed synergies and with the combined capabilities and resources of TBG, ZhangYe and DongYuan that will be brought into the partnership arrangement, it is expected that this project will bring significant growth into the Group's core business and be recognised as one of the leading molecular diagnostics provider in the Asia Pacific Region particularly in China.

The proposed acquisition has significantly progressed to date and completion is expected within March 2019.

Chairman and Group COO's Address

continued

CONTINUED FOCUS AND FUTURE GROWTH

TBG's continued core focus is on the development, manufacturing, and marketing of molecular diagnostic kits, instruments and services. The Group aims to be one of the leading molecular diagnostics solutions provider in the Asia Pacific region.

The Group's vision is to be one of the leading IVD companies in Asia whilst creating long term value with the objective of maximising returns to shareholders. The future likely developments are:

(i) Continue to provide solutions for transplantation, blood screening, infectious disease detection, monitoring of hereditary genetic disease and cancer therapeutics.

To date, we have achieved a number of product certifications and approvals in Taiwan and in China. This is a significant milestone for the group as it further progresses to various product registration and approval applications within 2019 and within the next two years.

(ii) Continue to look for opportunities for expansion of the Group's core technology through merger and acquisition.

Following the acquisition of ZhangYe which is expected to be completed within the first quarter of 2019, the group will consider further merger and acquisition opportunities that will arise which will complement the current business and shared vision where it is expected to add value to the group and its shareholders. Investor relation activities are planned from time to time to increase investor awareness of our products and services, as well as our growing industry position.

(iii) Proactively increase presence in the larger Asian market through licensing, partnerships and collaborations.

Our growth strategy is underpinned by the licensing and partnership agreements that the group have entered into during the financial year 2018. These new arrangements and agreements have brought further increase into the group's portfolio of products and services. As reported in 2017, a genetic testing clinical laboratory in the form of a subsidiary in China was established and completed within 2018. During 2018, this entity along with the China group were held as assets classified as held for sale (refer to iv below).

Post-completion of the ZhangYe acquisition, the Group will actively participate with the other parties, via this exciting investment, to expand market presence within the China region and larger Asia along with the Group's wholly owned subsidiary in Taiwan.

(iv) Take the necessary steps to complete the acquisition of ZhangYe Zhangsha Laboratory Corp. referred to above.

Post-acquisition of ZhangYe Zhangsha Medical Laboratory Corp. which is expected within early 2019, the group will continue to focus on China as the business model. TBG will be actively involved in this very promising China project, and will continue to target China region as its primary market for a series of molecular diagnostics products to be launched in the next three years. Recent IVD market surveys reported that China is predicted to become the fastest growing molecular diagnostics market in the world with sales estimated to increase to US$3.64 billion by 2024. Products developed and manufactured in China will be aimed towards the need of the market but at the same time serve the worldwide market especially the equally fast growing Asia. In alignment with our research and development strategy, we will be launching a series of products, covering the full spectrum of molecular diagnostics, including infectious diseases, oncology, blood screening and genetic testing, based on Real Time PCR and Sequencing technologies including NGS (next generation sequencing).

We are also committed to deliver a strong financial position to fund our ongoing operations and to explore potential expansion plans and emerging growth opportunities.

Thank you for your continued support. More updates may be provided during our Annual General Meeting in May 2019 in which you are encouraged to attend.

Jitto Arulampalam
Executive Chairman

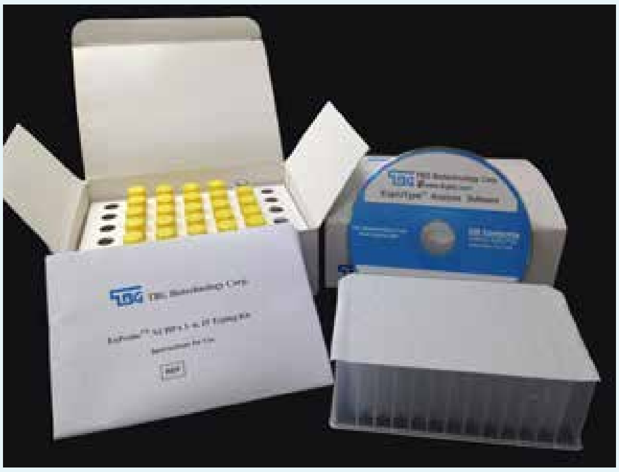
Eugene Cheng
Executive Director
(until 1 February 2019)

Non-Executive Director
(appointed 1 February 2019)

Products and Technology

ExProbe™ HLA and HPA Kits

ExProbe™ HLA and HPA Kits are designed for HLA and HPA allele genotyping using real time PCR techniques with sequence specific primers and probes.



HLAssure™ SBT HLA Kits

High resolution typing of HLA alleles using PCR techniques with sequence based typing. This is the first product within the SBT products range to receive China FDA. The product HLAssure™ SE HLA DRB3/4/5 Locus SBT kit received CE Mark in 2018 and is recommended for transplantation donor selection.

Morgan™ SSP HLA Kits

Morgan™ SSP HLA Kits are designed for determining HLA alleles using PCR techniques with sequence specific primers.

AccuType™ SBT Analysis Software

AccuType™ SBT Analysis Software is TBG's latest analysis software of SBT software. It is an open software that can be used to analyze sequences from all ab1 based files. The preset alignment database includes HLA A, B, C, DR, DQ, DP, MIC and TAP as well as other histocompatibility genes.

As a package with our HLAssure SBT kits, the software is able to:

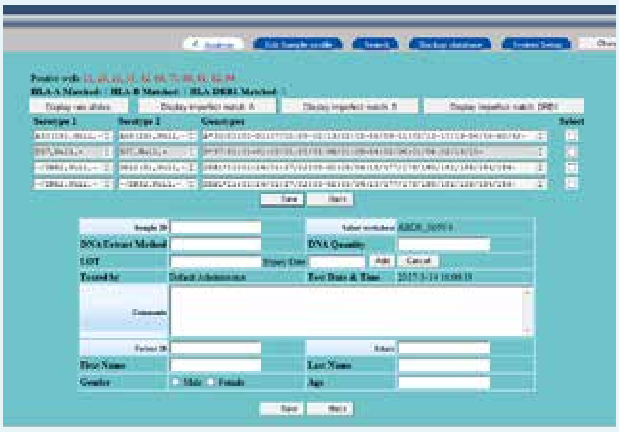
- Recognize both LSA, GSA and GSSP sequences.
- Manually import, alter or edit CWD lists as needed.
- Upon ambiguity, suggest resolution primer and exon regions.
- HLA database is updated twice per year.
- Compatible report formats with bone marrow registries.

Products and Technology

continued

Morgan™ SSPal HLA Typing Analysis Software

Morgan™ SSPal HLA Typing Analysis Software is gel result interpretation software that has been specially designed for users of Morgan™ SSP HLA typing kits.The software also annotates the size of specific-PCR product for double confirmation at the same time. Related information can be keyed-in such as name, ID, age, ethnic and gender of the samples or patient and import raw gel pictures into the database for storage. The efficient database search function assists the location of data and specific HLA types easily including parameters such as experimental conditions and gel-interpretation.



The software is designed to take into account frequent worksheet updates and users have to use the correct worksheet to interpret the HLA typing data. Users are advised to check the worksheet SN number from the label on each kit or from the worksheet provided in each kit with the worksheet loaded in the SSPal software to see if an update has been made.

QzNGS™ and Halotype™ NGS

TBG provides high resolution HLA genotyping using reagent and software with the NGS platform.

HLA Typing Services (ASHI Accredited)

TBG offers low to high resolution ASHI accredited HLA typing services using PCR fragment analysis (SSP) and DNA sequencing (SBT).

QPCR Q6000™

TBG's product that has recently gained European CE certification, Q6000™ is a six - channel real time PCR (polymerase chain reaction) instrument developed from modern technology and unique methodologies adopted within the TBG group. It has dual purpose - it currently serves as the platform for all TBG's future real time PCR reagent products; and will also serve as a major component of TBG's fully integrated automated system which is under development.

Products and Technology

continued

ONGOING PRODUCT DEVELOPMENT

Integrated Automated Clinical System

Provides sample in/answer out solution for a full spectrum of diseases including oncology, blood screening, genetic and infectious diseases.

Remodel the automated blood screening system

+

QPCR6000

+

Full spectrum MDx menu

FUTURE FOCUS

i) Short term focus

- Fast track R&D to expand product pipeline – both reagents and equipment
- Advance production and QA processes and complete on-going production trial runs for TBG Xiamen facility
- Development pathway for reagents and equipment

ii) Long term focus

Research & Development

Several projects aimed at creating precise automated MDx systems for hospitals and commercial uses:

- Oncology
- Infectious diseases
- Transplantation
- Transfusion (blood safety)
- Pharmacogenetics
- Autoimmune disease
- Genetic diseases

iii) Growth strategy

- Focus on China – the fastest growing market in the world
- Provide competitive quality products with automation
- Achieve high growth through merger and acquisition and building partnerships

Corporate Governance

TBG Diagnostics Limited (the "Company" or "TBG") is committed to ensuring that its policies and practices reflect good corporate governance and that there is compliance with all corporate governance requirements applicable to Australian listed companies. TBG continuously strives to develop and improve corporate governance processes and standards.

The Company has adopted the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (3rd edition) ("ASX Principles"). TBG's corporate governance practices are outlined in this Corporate Governance Statement.

Where the Company has not followed a recommendation, reasons for non-compliance have been identified. All these practices, unless otherwise stated, were in place for the entire year. This disclosure is in accordance with ASX listing rule 4.10.3. All policies referred to in this report are published on the Company's website www.tbgbio.com in the Corporate Governance section which is located under the Investor Centre tab.

This Corporate Governance Statement has been approved by the Board is current as at 21 March 2019.

ASX Corporate Governance Principles and Recommendations

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 – Functions of the Board and Management

During the reporting period, the Board was comprised of an Executive Chairman, an Executive Director and three (3) Non-Executive Directors. The Board governs the Company, and has the ultimate responsibility for the strategy and performance of the Company on behalf of the shareholders to whom they are accountable.

The Board is committed to achieving and demonstrating the highest standard of corporate governance through setting values and policies which underlie the business activities ensuring transparency and protecting stakeholders' interests.

Decision making authority on a number of significant matters is reserved to the Board. Outside of those areas, the CEO is responsible for the day-to-day management of the Company. In practice, the role of the CEO is currently undertaken by the Executive Chairman, with support from the Group Chief Operating Officer (COO). The CEO, together with the senior management team, is responsible to the Board for the development and implementation of the strategy and the overall management and performance of the Company.

The Board has formalised a list of responsibilities reserved for itself in the Board Charter and has delegated certain authority to Management. A copy of the Board Charter can be found on the Company's website, www.tbgbio.com.

Matters reserved for the Board include:-

- Approval of the Company's strategy, business plan, and performance objectives;
- Approving and monitoring the progress of capital expenditure, capital management, acquisition and divestiture;
- Appointing and reviewing the performance of the Managing Director and CEO, and his or her removal;
- Monitoring senior management's performance and implementation of strategy; and
- Approving and reviewing the risk management systems, internal compliance and controls.

Recommendation 1.2 – Appointment of New Directors

The Company performs appropriate checks of any potential director prior to that person's appointment or election as a director. These checks can include checks on a person's character, experience, education and bankruptcy history.

All material information known to the Company that is relevant to a decision on whether or not to elect or re-elect a director is included in the Notice of Meeting and Explanatory Memorandum for election of Directors. The Directors' details including any other material directorships currently held are set out in the Directors' Report in the Annual Report.

Recommendation 1.3 – Written agreements with each Director and Senior Executive

TBG ensures the Non-Executive Directors have a written Letter of Appointment, and all senior executives have a written Employment Agreement setting out their terms of appointment.

This is to ensure that they have a clear understanding of their roles and responsibilities and the Company's expectation of them.

Material terms of the contracts of employment are included in the Remuneration Report of the Directors' Report.

Recommendation 1.4 – Company Secretary

The Company Secretary, Mr Justyn Stedwell is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board including all governance and compliance matters.

Corporate Governance

continued

Recommendation 1.5 – Diversity Policy

The Company has in place a Diversity Policy which is designed to show the Company's commitment to gender diversity and to acknowledge that a talented and diverse workplace is a key competitive advantage.

Diversity includes, but is not limited to, gender, age, race, religion, national origin, ethnicity, cultural background, marital status, sexual orientation or disability. The policy sets out guidelines for the Company to follow in managing diversity within the Company, including the development of measurable targets and key performance indicators to be reviewed by the Board.

The Company acknowledges that achieving the desired level of diversity is an ongoing process. TBG is committed to providing a respectful environment where employees and others in the workplace are treated fairly and all decisions are based on merit, without regard to their differences or similarities. As such, the Company has not yet defined measureable objectives but these will be developed over time as the business grows so that the objectives are meaningful and achievable.

The Board is committed to diversity and promoting a policy to maximise the achievement of corporate goals. The Diversity Policy is available on TBG's website.

As at 31 December 2018, the gender diversity statistics for the Company were as follows:-

	Female	Total	Female Proportion
TBG Staff	3	8	37%
Key Management Personnel*	1	2	50%
Board Members	1	5	20%

* Key Management Personnel comprises senior executives who report directly to the CEO/Executive Chairman.

Currently, the Board has a 20% female representation as the Board recognises and is committed to Board gender diversity.

Recommendation 1.6 – Process for Evaluating Performance of Board, Committees and Individual Directors

The Board undertakes a Board self-evaluation to examine its collective and individual performance. The Chairman has the primary responsibility for conducting the performance appraisals of the non-executive directors. A Board review was not conducted during the reporting period. This was, however, subsequently conducted in February 2019.

Recommendation 1.7 – Process for Evaluating Performance of Senior Executives

The Executive Chairman (who assumed the role of CEO) reviews the performance of senior executives against the agreed performance measures and other relevant factors annually.

The Executive Chairman undertakes a performance evaluation of senior executives. A formal evaluation process was conducted during the year for all Company's employees including its senior executives. The process for employees is an annual written evaluation based on previously agreed performance indicators and reviewed with employees.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1 – Nomination Committee

The Board seeks to ensure that the Board and its committees have the right mix of skills, knowledge and experience necessary to guide and govern the Company effectively and in accordance with highest standards.

In 2016, the Board established a separate Remuneration and Nomination Committee ("RNC") consisting of the three (3) Non-Executive Directors. The Chair of the RNC, Stanley Chang, is a Non-Independent Director and one (1) member, Emily Lee, is considered independent.

The Board considers that Stanley Chang is the most appropriate director to Chair the RNC despite his non-independent status, and that the presence of one independent director on the RNC provides the committee with sufficient independent presence.

The Charter of the RNC is available at www.tbgbio.com.

Corporate Governance

continued

Recommendation 2.2 - Board Skills Matrix

The Board considers that, collectively, the current Board has a wide range of experience, knowledge and skills that are complimentary and diverse bringing together commercial, scientific and medical expertise.

The Board has developed a Board skills matrix that sets out the mix of skills, experience and expertise the Board currently has and is looking to achieve in its membership.

A summary of the Directors' skills and experience as relevant to the Company as at the date of this Corporate Statement is set out below:

Skills and Experience	Number of Directors
Leadership and Governance	
– Other Board experience	5
– Executive Leadership	5
– Corporate Governance	5
– Strategy	5
Industry Experience	
– Scientific	2
– Medical	2
– Commercial	5
Finance and Risk	
– Financial knowledge and experience	3
– Capital management	3
– Mergers and acquisitions	3
– Risk management	5
People	
– Health and Safety	3
– Human Resources	3

Recommendation 2.3 – Independent Directors

The Board recognises the important contribution that Independent Directors make to good corporate governance. All the Directors, whether independent or not, are required to exercise independent judgment and act in the best interest of the Company.

A director is considered independent if he substantially satisfies the test for independence as described in Box 2.3 of the ASX Corporate Governance ("CG") Recommendations.

The Independent Director in particular brings independent thinking, high standards of corporate governance and good judgement to the Board.

Recommendation 2.4 – Independence of Board

The Board is comprised of five directors, Emily Lee is considered to be the only Independent Director on the Board. Given the majority of the Board is not considered independent under the definitions provided in the ASX CG Recommendations, this recommendation has not been satisfied.

The Board believes even though it does not satisfy this recommendation, it does possess the appropriate level of experience, knowledge and business skills to govern the Company and that their non-independence does not interfere with their ability to give independent judgment to issues before the Board (and Board Committees).

Corporate Governance

continued

In addition, the Board considers this to be the optimal Board composition given the current size and business of the Company, as well as its significant transformation from a drug development company to a molecular diagnostic company.

The Board has mechanisms to identify and consider potential conflicts. All the Directors are required to disclose any actual/potential conflict of interests in dealings with the Company at each Board meeting and abstain/withdrawn from Board discussion and decision where they have an interest. Directors acknowledge the need to act in good faith and in the interests of all shareholders.

The Directors are not appointed for a fixed term, but are subject to re-election by shareholders at least every three years in accordance with the Constitution of the Company.

Recommendation 2.5 – Independence of Chairman

The Chair is a Non-Independent Executive Chairman (see Recommendation 2.4 for discussion on independence). The roles of the Chair and CEO are performed by the same individual. Although Mr Jitto Arulampalam is not appointed as CEO, he performs the primary executive function of the Company including investor relations, capital raising activities in conjunction with the Executive Director/COO who explores business development and corporate opportunities that drives the Company's growth and transformation.

It is acknowledged that the ASX recommends that the Chairman should be an Independent Director (as defined by ASX) and that the roles of chairperson and chief executive officer should not be exercised by the same individual. The Company is not currently compliant with this recommendation.

It is the Board's view however that the current Chairman (Mr Arulampalam) remains the most appropriate person to fulfil this role in the best interests of the Company and its shareholders until a CEO is appointed.

Recommendation 2.6 – Induction and Professional Development of Directors

The Board provides an appropriate induction program for new directors to familiarise themselves with TBG's business and strategy including scheduled meetings with the Executive Chairman of the Company.

The Board induction pack includes Guides for Life Science Company Director and Codes of Best Practice for Reporting by Life Science Companies that provide best practice governance within the board and informational sources on life science.

The new directors were inducted by the Executive Chairman on behalf of the Nomination Committee to enable them to discharge their director obligations as effectively as possible.

The Board encourages the Directors to continue their education by participating in applicable workshops/seminars and site visits to maintain and develop their skills and knowledge.

Each Director of the Company has the right to seek independent professional advice at the expense of the Company. Prior approval of the Chairman is required.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Recommendation 3.1 – Code of Conduct

The Board recognises its responsibility to set the ethical tone and standards of the Company. Directors sign a letter of appointment which outlines the fiduciary relationship that exists between the director and the Company.

The Code of Ethics for Executive Directors and Chief Financial Officer sets out the rules regarding individual responsibilities to TBG, the public and stakeholders.

Additionally, TBG has a Code of Business Conduct which applies to all officers, senior executives and employees. These documents are available on TBG's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1 – Audit Committee

The Board has established a combined Audit and Risk Management Committee (ARC) following the merger in December 2015 to assist the Board in overseeing the integrity of financial reporting, appointment and independence of the auditor, internal financial controls, risk management and compliance framework.

The ARC consists of three (3) members, two (2) Non-Executive Directors and one (1) Executive Director. The Chair is Independent Director, Emily Lee, who is considered the most appropriate Non-Executive Director to Chair the ARC given she is the only Independent Director on the Board. The Company is not currently fully compliant with this Recommendation on the structure of ARC (that the ARC consists of only Non-Executive Directors and that majority of members are independent - see Recommendation 2.4 for discussion on Board composition and independence).

The Audit and Risk Management Committee operates under a Charter that outlines the Committee's responsibilities including overseeing the role and independence of the external auditors. A copy of the Audit and Risk Management Committee Charter is available on TBG's website.

Corporate Governance

continued

The relevant qualifications and experience of the members of the Audit and Risk Management Committee are outlined in the Directors' Report of the Annual Report.

The Board considered that they have the skills and experience to discharge their duties effectively as an Audit and Risk Management Committee.

The Audit and Risk Management Committee met twice during the year ending 31 December 2018 and Director's attendance is on the Directors' Report of the Annual Report.

Engagement and Rotation of External Auditor

The Board is responsible for nominating the external auditor. If the Board nominates a change of external auditor, it requires the approval of shareholders. The Board meets with the external auditors to review the adequacy of the existing audit arrangements with particular emphasis on the scope, quality and independence of the audit. It includes the rotation of the audit engagement partner.

Procedures are in place governing the approval for non-audit work before the commencement of any engagement to avoid any conflict of interests.

The engagement and rotation of Auditors are set out in the Audit Committee Charter on TBG's website.

Recommendation 4.2 – Declarations of the CEO and CFO

This recommendation is satisfied. This assurance is contained in the Directors' Declaration section of the Annual Report.

Prior to the Board approving the financial statements, the CEO (or its equivalent) and the CFO (or its equivalent) provide a declaration to the Board that the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that their opinion is founded on a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3 – External Auditors

TBG ensures that its external auditors/the lead audit partner or his representative attends the AGM to answer questions from the shareholders pertaining to audit.

The lead partner, Mr Tim Mann, attended the Annual General Meeting ("AGM") for the financial year ended 31 December 2017 and was available to answer all the questions.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1 – Disclosure Policy

This recommendation is satisfied. The Company has a formal Continuous Disclosure Policy as disclosed on its website.

This Policy is to ensure the Company achieves best practice in complying with its continuous disclosures obligations under the Corporations Act and ASX Listing Rules and ensuring the Company and individual officers do not contravene the Corporations Act or ASX Listing Rules.

The Company also prepares company announcements that comply with the Code of Best Practice for Reporting by Life Science Companies 2nd edition when possible. Once announced to the ASX all releases are posted onto the TBG's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1 – Information on website

This recommendation is satisfied.

The Company's internet website (www.tbgbio.com) is regularly updated and provides information about itself and its governance, namely the details of all announcements by the Company to the ASX, annual reports, investor information and general information on the Company and its business.

Recommendation 6.2 – Investor Relations Program

TBG scheduled interactions during the year where it engages with institutional and private investors, analysts and financial media in order for the investors to gain a greater understanding of the Company's business, performance and future of the Company.

The meetings and discussions are restricted to explanations of information already within the market or which deal with non-price sensitive information.

In addition, shareholders are given the opportunity to meet with Management immediately following the general meetings.

Management responds to meeting and information request by shareholders in a timely manner.

Corporate Governance

continued

Information is communicated to shareholders through:

- The annual report is distributed to shareholders free of charge to all shareholders. An electronic copy is also placed on the Company's website. The Board ensures that the annual report includes relevant information about the operation of the Company during the year, changes in the state of affairs of the Company and details of future development, in addition to the other disclosures required by the Corporations Act.
- The half year financial report contains summarised financial information and a review of operations of the Company during the period. The half-year financial report is prepared in accordance with the requirements of Accounting standards and the Corporations Act and is lodged with the ASX.

Recommendation 6.3 – Shareholders' Meetings

The Communication Policy is found on TBG's website. The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and identification with the Company's strategy, performance and goals.

Shareholders who are unable to attend the AGM may vote by appointing a proxy using the form included with the Notice of Meeting. Further, shareholders are also invited to submit questions in advance of the AGM so that the Company can ensure those issues are addressed at the meeting.

Recommendation 6.4 – Electronic Communication

The Board has adopted a shareholder Communication Policy (aligned with ASX Listing Rule 3.1) which is designed to ensure that TBG shareholders are kept informed of all major developments affecting the state of affairs of the Group and are able to obtain information about the Group through direct communication with management or on the website. http://tbgbio.com/en/contact.

TBG prepares Annual Reports for investors for each financial year ending 31 December. These reports are posted to the Company's website following their release to the ASX.

Shareholders have the option to receive communications from, and send communications to, the Company and its security registry, Computershare Investor Services Pty Ltd (Australia) electronically, https://www-au.computershare.com/Investor/Contact.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1 – Risk Committee

The Company places a high priority on risk management and identification throughout the Group's operations and regularly reviews its adequacy in this regard.

Following the 2016 merger, the Board has established a combined Audit and Risk Management Committee ("ARC") (see Recommendation 4.1 for the structure of the Risk and Audit Management Committee). The ARC assists the Board in overseeing, setting and monitoring the risk management framework. The ARC Charter is available on TBG's website.

The ARC met twice (2) times during the year ended 31 December 2018 and Director's attendance is on the Directors' Report of the Annual Report.

Management reports to the ARC regularly as to the effectiveness of the Company's management of its business risk/material risks. The Company's process of risk management and internal compliance and control includes:-

i. Establishing the Company's goal and objectives, and implementing and monitoring strategies, and policies to achieve these goals and objectives;
ii. Continuously identifying and mitigating risks that might impact the achievement of the Company's goal and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
iii. Formulating risk strategies that manage and identify risks, designing and implementing appropriate risk management policies and internal control; and
iv. Monitoring the performance of, and continuously improving the effectiveness of risk management systems, internal control and compliance, including an ongoing assessment of the effectiveness of risk management, internal compliance and control.

The controls adopted by the Company include:

i. Standing items for Board meetings
   - Operations updates including occupational health and safety
   - Finance updates including monthly accounts, monthly cash flow forecasting, annual budgets with monthly review of actual performance against budgets, audit and risk related matters
   - Compliance and legal requirements
   - Corporate matters including capital requirements, share statistics and ASX announcements
ii. Strategic and business planning
iii. Limits for approval of capital expenditure
iv. Limits on authorities for the execution of contracts and legal documents
v. Insurance program to address insurable risk

Corporate Governance

continued

Recommendation 7.2 – Annual Risk Review

The Board oversees an ongoing assessment of the effectiveness of the risk management and has reviewed the Company's risk management framework following the end of the financial year.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to report back regularly on the efficiency and effectiveness of the risk management.

Recommendation 7.3 – Internal Audit

The Company does not have a formal internal audit function as it is not considered economically viable/cost effective given the size of the Company.

The Company has established an internal assurance process in lieu of a dedicated internal audit program. The Company utilises both external and internal resources to provide an internal control function.

The Company is mindful to ensure a suitable level of independence is achieved in this internal control program and regularly reports to the Audit and Risk Management Committee in an objective manner allowing for assurance that key risks are being accurately evaluated and reported. An internal control plan is established and designed to provide a suitable level of assurance to the Audit and Risk Management Committee that internal controls are operating effectively and efficiently.

Recommendation 7.4 – Sustainability Risks

The Board is regularly briefed by Management in relation to material exposure to economic, environmental and social sustainability risks facing the Company. TBG does not have any material exposure to these risks.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1 – Remuneration Committee

In 2016, the Board established a separate Remuneration and Nomination Committee ("RNC") consisting of three (3) Non-Executive Directors. Further detail on the composition of the RNC is set out in section 2.1.

The RNC did not meet during the financial year ended 31 December 2018.

The RNC reviews internal remuneration policies and practices on remuneration packages of the Company's executive salaries while taking into consideration performance, relevant comparative information and independent expert advice where necessary.

Further information on Directors' and Executives' remuneration is set out in the Remuneration Report of the Directors' Report.

Recommendation 8.2 – Disclosure of Remuneration Policies and Practices

The Company policies relating to the remuneration of Non-Executive Directors, Executive Directors and senior executives and the level of their remuneration is in the Remuneration Report of the Directors' Report.

Recommendation 8.3 – Policy on equity-based remuneration scheme

The Board has a policy prohibiting directors or executives entering into contracts to hedge their exposure to options or shares granted as part of their remuneration. The Board periodically requests directors and executives confirm they are in compliance with this policy.

Details of the Options granted and vested during the financial year are set out in the Remuneration Report of the Directors' Report.

The TBG Directors' and Employee Option Incentive Plan Rules and Securities Trading Policy are available in TBG's website.

Financial Report

for the year ended 31 December 2018

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Directors' Report

Your directors present their report on the consolidated entity consisting of TBG Diagnostics (referred to as 'TBG' or 'the Company') ABN 82 010 975 612 and the entities it controlled (referred to as 'the Group') during the year ended 31 December 2018.

1. Directors

The names of the company's directors in office during the year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Indrajit Arulampalam	(Executive Chairman)
Dr Stanley Chang	(Non-Executive Director)
Ms Emily Lee	(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)
Mr Eugene Cheng	(Executive Director / Chief Executive Officer – TBG Inc / Chief Operating Officer – TBG Diagnostics Ltd, resigned 1 February 2019 Non-Executive Director, appointed 1 February 2019)

2. Dividends

No dividends have been paid or declared during the period and the directors do not recommend the payment of a dividend for the year ended 31 December 2018 (31 December 2017: Nil).

3. Results and Review of Operations

Company Overview

The principal activities of TBG Diagnostics Limited during the period were as follows:

1. Focused on the research and development, manufacturing, sales and marketing and services of Molecular Diagnostics (MDx) products, including assays and instruments;
2. Entered into collaboration arrangements and product licensing agreements with external parties to expand market presence and product portfolio;
3. Fully launched the businesses in China through marketing strategies to increase public awareness and the larger Asian market supporting our growth strategies; and
4. Signed an agreement with Zhangsha ZhangYe Medical Laboratory to acquire 100% of the issued capital of ZhangYe in exchange of the Company transferring 42.1% of its shares to the founding shareholders of ZhangYe. This is in line with the company's strategy to increase market presence in Asia mainly in China and Asia Pacific markets.

The Company's objective is to become one of the leading molecular diagnostics (MDx) companies in Asia and particularly in China. Due to its unparalleled performance in immune matching ability, molecular diagnostics is becoming an essential tool in helping the clinician with critical transplant decisions. TBG is continually pushing to the forefront of molecular testing for diagnostics. From the extraction of nucleic acids, amplification and detection of infectious diseases, genotyping and viral load testing, TBG is committed to expanding the applications of our core technology.

Operating and Financial Review

Operating Results for the Year

To be read in conjunction with the attached Financial Report.

The consolidated operating result for the period ended 31 December 2018 was a loss of $4,393,330, being a decrease of 32.9% over the 31 December 2017 net loss of $6,547,692.

The decrease in the loss for the year ended 31 December 2018 of $4,393,330 (2017: $6,547,692) is mainly attributed to results from discontinued operations of $1,861,793 (2017: $4,836,178). There was an improved sales performance from the China group (disposal group) during 2018 in spite of its increased operating expenses. Additionally, income arising from the early settlement of the deferred receivable from the sale of PharmaSynth Pty Ltd was recognised. In contrast, loss from discontinued operations in 2017 financial year pertained to impairment loss provision applicable to the receivable from the sale of PG545. Further in 2017 financial year, research and development tax incentive rebate of $1,091,439 was received and recognised as income.

Prior year's financial presentation have been reclassified to conform to current year's presentation.

Directors' Report

continued

3. Results and Review of Operations (continued)

The following table summarises the consolidated results:

	% Change	12 months ended 31 Dec 2018 $	12 months ended 31 Dec 2017 $
Revenue	(8.7)	3,152,830	3,451,379
Cost of Sales	(53.3)	(361,593)	(773,776)
Other income	(82.7)	197,967	1,146,321
Administrative and corporate expenses	(3.2)	(2,463,839)	(2,545,434)
Research and development expenses	1.1	(2,094,669)	(2,072,566)
Selling expenses	4.9	(962,233)	(917,438)
Loss on discontinued operations	(61.5)	(1,861,793)	(4,836,178)
Operating loss	**(32.9)**	**(4,393,330)**	**(6,547,692)**

Earnings/(Loss) per Share and Net Tangible Assets per Share

	% Change	12 months ended 31 Dec 2018 $	12 months ended 31 Dec 2017 $
Basic and diluted loss per share	150.0	(2.0)	(0.8)
Net tangible assets per share	(18.5)	5.3	6.5

Management Discussion and Analysis

Revenue and Other Income

Total revenues earned during the year decreased 8.7% to $3,152,830 in 31 December 2018 (2017: $3,451,379). 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 in spite of new customers obtained during the year. Of the sales revenue from customers, 30% (2017: 53%) represent sales to its parent entity, Medigen.

Other income significantly decreased 82.7% to $197,967 (2017: $1,146,321) mainly due to the research and development tax incentive rebate received in prior year of $1,091,439 pertaining to the 2016 financial year.

	% Change	12 months ended 31 Dec 2018 $	12 months ended 31 Dec 2017 $
Revenue and other income			
Sales revenue	(2.8)	2,848,954	2,931,848
Technical services revenue	(41.5)	303,876	519,531
Interest revenue	29.2	71,490	55,327
Other income	(88.4)	126,477	1,090,994
Total revenue and other income	(27.1)	3,350,797	4,597,700

Directors' Report

continued

3. Results and Review of Operations (continued)

Research and Development (R&D) Expenses

Research and development expenditure decreased 1.1% to $2,094,669 (2017: $2,072,566) during the year ended 31 December 2018. In 2017, European CE-Mark certification was 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. During 2018, TBG continuously focused on the development of molecular diagnostics in Immunogenetics. Based on multiplex PCR technology, the Group is also developing products for infectious disease diagnostics. Of the twenty-four (24) products currently being developed, six (6) products in transfusion, immunity and infectious diseases have entered clinical trials and IVD approval processes and this is expected to continue in 2019.

The primary activities of the R&D division during the year 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. TBG currently provide HLA B27 IVD products for Ankylosing Spongyditis as well as HLA-DQB IVD Products for Celiac and Narcolepsy.

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.

The discontinued component of research and development expenditures pertaining to the Australian R&D as follows:

1. Nonclinical development of PG545;
2. Continuation of Phase 1a clinical trial of PG545;
3. Feasibility studies on possible combination of Phase 1b/2a clinical trial of PG545, and
4. Further development and testing of the manufacturing route for PG545.

The partly discontinued research and development expenditures pertaining to the disposal group in China are as follows:

1. Manufacture and clinical trial stages including regulation submission of a series of products that were developed by TBG Taiwan which is currently under licensing agreement with TBG Xiamen;
2. Technology development of infectious diseases, oncology, blood screening and genetic testing products; and
3. Provision of genetic testing services in transplantation, blood and platelets transfusion, cancer and genetic diagnostics in Xiamen City, Fujian Region and other neighbouring provinces of China.

Directors' Report

continued

3. Results and Review of Operations (continued)

Selling expenses

Selling expenses increased 4.9% to $962,233 (2017: $917,438). During the year ended 31 December 2018, the group incurred increased marketing costs in relation to product launches, overseas exhibition participations, and related travel costs to increase market presence in Asia. Furthermore, sales commissions and fees to external parties in relation to product sales were incurred during the year.

Administrative and Corporate Expenses

Administrative and corporate expenses decreased 3.2% to $2,463,839 (2017: $2,545,434). 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.

Loss on Discontinued Operations

For the year ended 31 December 2018 a loss from discontinued operations of $1,861,793 (2017: $4,836,178) was recorded relating to losses incurred by the Group's China subsidiary, TBG Biotechnology (Xiamen) Inc. and its subsidiaries. The proposed disposal of these operations was announced on 17 December 2018. In addition, income was recognised pertaining to the early settlement of the deferred consideration from the sale of PharmaSynth Pty Ltd. Loss from discontinued operations at 31 December 2017 pertained to the same disposal group and the impairment loss provision applicable to the receivable from the sale of PG545. Prior year amounts have been reclassified to conform to current year's presentation.

Liquidity and Cash Resources

The Group ended the financial year with cash and cash equivalents totalling $6,734,791 compared with $7,918,213 at 31 December 2017. In February 2018, the Company received a total of $1.8 million from Luina Bio Pty Ltd as the full and final settlement of the receivable from the sale of PharmaSynth (Note 5). In April 2018, the group also received a total amount of $412,692 (CNY 2,000,000) being the additional capital contribution of Xiamen Haicang that owned 40% non-controlling interest in the group's genetic testing subsidiary in China, BioBay Medical Health Ltd.

Cash and cash equivalents at 31 December 2018 were represented by a mix of highly liquid interest bearing investments with maturities of up to 90 days and deposits on call.

Cash Flows

Cash of $2,726,902 was disbursed during the year to fund consolidated net operating activities, compared to $2,433,765 in 2017. The movement was due mainly to increased operational expenditures in spite of more trade collections during the year. Further to this, the Group received the research and development tax incentives in Australia in 2017. These activities resulted to a higher net cash outflow.

Cash inflows from investing activities amounted to $450,113 (2017: $497,996 outflow). During the year, the Australian parent entity received $1.8 million from Luina Bio Pty Ltd as full and final settlement of the receivable from the sale of PharmaSynth. Capital expenditures of $1.3 million was also disbursed for the manufacturing facility improvements and purchase of machinery and other equipment particularly in the China entities.

Funding Requirements

At 31 December 2018, the Group has total outstanding commitments of $1,793,677 (2017: $648,603), of which $455,403 (2017: $648,603) pertains to the Group's operating lease commitments; and $1,338,274 (2017: $nil) pertains to technical support services. In addition, the Group expects to incur substantial future expenditure in light of its research and development programs, manufacturing facility expansion and sales growth plans.

At present, TBG is undertaking to continue product development and the manufacture of its wide range of molecular diagnostics products and an integrated automated clinical system. Prior to full product launches, TBG needs to secure clinical trials and obtain regulatory approvals of its internally developed products and build its competitive advantage to achieve its growth plans. Significant cash requirements are required to achieve these objectives.

As part of the ZhangYe acquisition announced on 17 December 2018, the Company is expecting to receive funding of RMB 10,679,283 (approximately AU$2,119,039) from DongYuan, one of the parties in the proposed acquisition of Zhangsha ZhangYe via TBG Xiamen. The funds are intended to serve the expansion of the subsidiary's laboratory and molecular diagnostic kits and associated products, sales capabilities and distribution and/or sales channels through developed synergies of the parties from the acquisition and to expand further the molecular diagnostics business of TBG Xiamen in China and Asia Pacific.

Directors' Report

continued

3. Results and Review of Operations (continued)

Future cash requirements will depend on a number of factors, including the scope and results of nonclinical studies and clinical trials, continued progress of research and development programs, the company's out-licensing activities, the ability to generate positive cash flow from the molecular diagnostics (MDx) business, the ability to generate revenues from the commercialisation of drug development efforts and the availability of other funding.

The Company estimates that the current cash and cash equivalents are sufficient to fund its on-going operations for at least 16 months from the date of this report. This excludes capital requirements outside of normal operating activities.

In light of the continuing merger and acquisition strategies, the Group is also looking further at various funding arrangements to finance any potential acquisition requirements, and to expand its cash reserves and capital resources.

4. Significant Changes in the State of Affairs

(i) 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.

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 $4,000,000 capital raising event. This allows the buyer to pay the deferred payment by way of a $1,999,000 cash payment and $4,000,000 in Zucero shares. This right had to 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 accepted and signed an agreement deed with Zucero Therapeutics 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, subject to the buyer completing a qualified Financing Event and other relevant conditions; and pay the seller the Cash Deferred Payment portion of $1,999,000. This did not occur during the period, however, further extension of the Conversion End Date to 31 March 2019 was approved on 21 February 2019.

(ii) Board changes

On 28 May 2018, Mr Edward Chang resigned as non-executive director of the group. Following his resignation, Mr Hsi-Kai (C. K.) Wang was appointed as non-executive director of the group.

(iii) Proposed acquisition of Zhangsha ZhangYe Medical Laboratory Corp

On 17 December 2018, TBG Diagnostics Ltd (the 'Group' or the 'Company') announced that it has entered into an agreement (through its wholly owned subsidiary TBG Biotechnology Xiamen ("TBG Xiamen") to acquire Zhangsha ZhangYe Medical Laboratory Corp. ("ZhangYe"), a company incorporated in China which conducts a business of providing medical laboratory testing services to hospitals and the community, and which is based in the city of Zhangsha in Hunan Province.

TBG Xiamen was incorporated in 2014 to address the government requirements of Haicang, China, for foreign entities operating genetic testing businesses in the Xiamen region of China and carries on a business of research and development and manufacturing molecular diagnostic kits and instruments.

In consideration for the acquisition of 100% issued capital in ZhangYe the Company will transfer shares constituting 42.1% of TBG Xiamen to the founding shareholders of Zhangsha ZhangYe Medical Laboratory Corp. DongYuan Huaxin (Beijing) Capital Management Co Ltd ("DongYuan"), one of the parties in the agreement, is a private equity firm incorporated in China and will provide capital investment into TBG Xiamen. DongYuan is a consulting and advisory company which aims to strategically grow the reach of many of the businesses it invests in, including by leveraging off its relationships in China and Asia Pacific to expand its portfolio companies' capabilities.

Directors' Report

continued

4. Significant Changes in the State of Affairs (continued)

Under the agreement with DongYuan, shares equaling 11.25% of TBG Xiamen's share capital will be issued to DongYuan for cash consideration of RMB 10,679,283, which will be reinvested in TBG Xiamen ("DongYuan Investment"). After completion of the transactions, the Company will hold 46.65% of the equity in TBG Xiamen and TBG Xiamen will hold 100% of the equity in ZhangYe, such that the Company will indirectly hold an interest of 46.65% in ZhangYe. Under the terms of the agreement, the proposed acquisition of ZhangYe will result in ZhangYe shareholders holding a controlling interest in the TBG Xiamen while TBG will retain significant influence through its investment in the same entity after the transaction. As a result, it is expected that the remaining investment will be accounted for as an 'Investment in Associate' under the equity method of accounting in accordance with the requirements of AASB 128 *Investments in Associates and Joint Ventures (AASB 128)*.

The purpose of the disposal is for the Company to draw on the capabilities and resources of ZhangYe and DongYuan in order to develop synergies between each of the businesses of ZhangYe and DongYuan and TBG Xiamen, and to expand further the molecular diagnostics business of TBG Xiamen within the China and Asia Pacific markets.

As negotiations between the parties have been finalised, further final procedures are being taken to complete the transaction which is expected to occur within the first quarter of 2019. Accordingly, the assets and liabilities attributable to TBG Xiamen and its subsidiaries have been classified as disposal group held for sale and are presented separately in the statement of financial position.

On 18 February 2019, TBG Xiamen received 5,000,000 RMB as partial payment from DongYuan in respect of the cash contribution described above.

5. Significant Events after the Reporting Date

Board and management changes

On 1 February 2019, Mr. Eugene Cheng resigned as the Group Chief Operating Officer but will continue in his capacity as Non-executive director of the group. On the same date, Mr. Willy Hsu was appointed as the Chief Operating Officer of the group.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

6. Likely Developments and Expected Results

The likely developments in the year ahead include:

i. Providing solutions for transplantation, blood screening, infectious disease detection, monitoring of hereditary genetic disease and cancer therapeutics;
ii. Continue to look for opportunities for expansion of the Group's core technology through merger and acquisition;
iii. Proactively increase presence in the larger Asian market through licensing, partnerships and collaborations; and
iv. Take the necessary steps to complete the acquisition of ZhangYe Zhagsha Laboratopry Corp as announced and referenced in the Director's report and in Note 5 to the financial report.

Directors' Report

continued

7. Directors – Qualifications, Experience and Special Responsibilities (held in the last three years)

Directors and company secretary in office at the date of this report

Mr Indrajit Solomon (Jitto) Arulampalam

Executive Chairman

Risk and Audit Committee Member

Mr. Arulampalam is a Melbourne based businessman with over 20 years of extensive experience in corporate restructuring, capital raising, listing and running of public companies on the ASX. Mr Arulampalam finished the degree of Bachelor in Business Administration at Curtin University in 1988 and is currently a Non-Executive Chairman of ASX listed company Lanka Graphite Limited (ASX:LGR). Having started his career in Accounting, he spent more than 8 years with Westpac Banking Corporation in several key operational and strategic Banking roles before joining boards of public companies.

In 2004, Mr. Arulampalam was head hunted by Newsnet Ltd as its CEO to assist in the restructuring of the company, and to position it for an IPO. Since this appointment he was responsible for guiding the company through a successful restructure and positioned Newsnet as a leading innovator in the messaging/telco space to be recognised by the 2006 Australian Financial Review MIS Magazine as one of the "Top 25 global rising stars".

In 2010, Mr. Arulampalam co-founded ASX listed potash mining and exploration company Fortis Mining Ltd (ASX: FMJ). As the Executive Chairman, he was instrumental in the company's acquisition of world class potash assets in Kazakhstan, a monumental deal which ultimately led to the company being awarded "IPO of the Year 2011".

Mr. Arulampalam was also previously the Chairman of ASX listed companies Great Western Exploration Ltd (ASX: GTE) and Medicvision Limited (ASX: MVH). He has also been the Chairman of Euro Petroleum Limited, an ASX listed company.

In November 2017, Mr. Arulampalam was appointed as the Chief Executive Officer of TAPP Group, an Australian financial services and technology company based in Melbourne.

Dr. Stanley Chang

Non-Executive Director

Remuneration and Nomination Committee Chair

Dr. Chang is the Chairman of Medigen, with an MD degree from National Taiwan University College of Medicine and a Ph.D. degree in Laser Medicine from the University College London of London University, UK.

Dr. Chang is a Urological surgeon by training, and was formerly a professor in Urology, and the chairman of Faculty of Medicine at Tzu-Chi Medical College, Taiwan. He changed the career track to biotech business in 2000, and became the CEO and Chairman of both Medigen and Medigen Vaccine Biologics Corp. (MVC).

Medigen is a publicly listed company in Taiwan, focusing on monoclonal antibody discovery, cancer drug developments, and molecular diagnostic kits/devices manufacturing and marketing. MVC on the other hand is a subsidiary of Medigen, devoted to cell based technology for vaccine production. MVC is constructing a PIC/s certified vaccine manufacturing plant for pandemic/seasonal flu vaccines and EV71 enterovirus vaccines in Taiwan. The state-of-the-art cell-based vaccine production plant is planned to go through EU's PIC/s GMP inspection and start operation in 2018.

Dr Chang holds a total of 1,802,064 shares in Medigen, the ultimate parent of the Company. At the direction of the Taipei Stock Exchange, the shares are not tradeable from the Initial Public Offering (IPO) in November 2011 until regulatory approval is obtained for the product PI-88.

Directors' Report

continued

Ms Emily Lee

Non-Executive Director

Remuneration and Nomination Committee Member

Risk and Audit Committee Chair (Acting)

Ms Emily Lee, who is currently a Non-Executive Director of ASX listed company Lanka Graphite Limited (ASX:LGR), is a Melbourne based businesswoman with a substantial track record of success in cross border transactions within the corporate and government sectors in Australia and Asia. Ms. Lee has extensive experience in corporate restructuring, capital raising, listing and managing of public companies on the ASX.

Ms Lee serves as Managing Director of Mercer Capital, a boutique private equity firm based in Melbourne. In May 2013, she was instrumental in leading a successful underwriting and capital raising exceeding $5 million for Progen Pharmaceuticals Limited (ASX: PGL). In August 2015, she successfully raised $3.8 million for Lanka Graphite Limited following the successful merger of Viculus Limited and Euro Petroleum.

Mercer Capital has been the lead strategic Corporate Advisor for Progen Pharmaceuticals Limited on managing and facilitating the corporate restructuring of the company and acquisition of TBG Inc.

Ms Lee previously held position as non-executive chairman for ASX listed company Australian Natural Proteins Limited (ASX:AYB).

Mr. Eugene Cheng

Executive Director, resigned 1 February 2019
Non-Executive Director, appointed 1 February 2019

Risk and Audit Committee Member

Mr. Eugene Cheng was previously the President of Medigen, a leading biotechnology company listed on Taipei Exchange in Taiwan.

Since he joined the company in 2004, Mr Cheng has been instrumental in Medigen's IPO on the Taipei Exchange in 2011 and the establishment and development of the company's in-vitro diagnostics business under the TBG brand. Mr Cheng spearheaded Medigen's M&A activities including the acquisitions of Texas Biogene in 2006 and Haoyuan of Shanghai in 2007. Under Eugene's leadership, Haoyuan became the leading local brand in China's NAT blood screening market. Haoyuan's valuation was increased by tenfold in 5 years before it got acquired by Perkin Elmer in 2012.

Prior to Medigen, Eugene held several executive positions in Acers, one of the world's leading PC brands. As VP and General Manager of the OEM Business Division, he was responsible for more than 50% of the company's sales. As the Chief of Staff, he assisted the President in strategic planning and was also responsible for Acer's corporate venture capital.

He sat on the boards of more than 15 companies in the investment portfolios, many of which have later became successful public companies in Taiwan and in the US.

Mr Cheng holds a bachelor degree in Chemical Engineering from Chung Yuan College of Science and Engineering, and a MBA degree from National Sun-Yat-Sen University in Taiwan.

Mr Cheng holds a total of 187,808 shares in Medigen, the ultimate parent of the Company. At the direction of the Taipei Stock Exchange, the shares are not tradeable from the Initial Public Offering (IPO) in November 2011 until regulatory approval is obtained for the product PI-88.

Directors' Report

continued

7. Directors – Qualifications, Experience and Special Responsibilities (held in the last three years) (continued)

Mr Hsi-Kai (C.K.) Wang, appointed 28 May 2018

Non-Executive Director

Mr. C.K. Wang is the Team Leader of Biotechnical Material Technical Team at Eternal Materials Co., Ltd.("Eternal"), a leading chemical material provider based in Taiwan. C.K. holds a Ph.D. degree in Applied Biological Chemistry from the University of Tokyo in Japan. Prior to joining Eternal, C.K. worked at Academia Sinica, the most preeminent academic institution in Taiwan, as a postdoctoral researcher.

Mr Justyn Stedwell

Company Secretary

Mr. Stedwell is a professional Company Secretary consultant with over 11 years' experience as a Company Secretary of public listed companies. He has completed a Bachelor of Commerce (Economics and Management) from Monash University, and a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia.

Director in office but not at the date of this report

Mr. Edward Chang, resigned 28 May 2018

Non-Executive Director

Risk and Audit Committee Chair

Remuneration and Nomination Committee Member

Mr. Edward Chang was previously Director of Finance Department at Eternal Materials Co., Ltd., a leading chemical material provider based in Taiwan. Edward holds a master's degree in Business Administration from the Schulich School of Business at York University in Canada. Prior to joining the firm, Edward worked at Motech Industries, Inc., a leading photovoltaic (PV) cell provider based in Taiwan, as Manager of Treasury and Risk Management Department.

Mr. Chang was also a director of Universal Development & Investment Capital Co., Ltd, ('Universal Medical'). Universal Medical, a company listed in Hong Kong Stock Exchange, is a venture capital investment company located in Taipei, Taiwan.

Directors' Report

continued

8. Particulars on Directors' Interest in Shares and Options

As at the date of this report the directors' interests in shares and options of the Company as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the *Corporations Act 2001* were:

Director	Shares	Options
Indrajit Solomon Arulampalam	40,000	–
Stanley Chang	500,000	–
Emily Lee	91,207	–
Eugene Cheng	–	–
Hsi-Kai (C.K.) Wang	–	–

9. Directors' Attendance at Board and Committee Meetings

The number of directors' meetings held during the year and the number of meetings attended by each director were as follows:

	Directors' meetings		Risk and audit committee meetings		Remuneration and nomination committee meetings	
Name	**A**	**B**	**A**	**B**	**A**	**B**
Indrajit Arulampalam	4	4	2	2	–	–
Stanley Chang	4	4	–	–	–	–
Emily Lee	4	4	2	2	–	–
Eugene Cheng	4	4	2	2	–	–
Edward Chang	–	–	1	1	–	–
Hsi-Kai (C.K.) Wang	4	4	1	1	–	–

Key:
A : Number of meetings attended
B : Number of meetings held during the time the director held office or was a member of the committee

Directors' Report

continued

10. Remuneration Report (audited)

This remuneration report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

Details of the key management personnel

(i) Directors

I.S. Arulampalam	Executive Chairman
S. Chang	Non-executive Director
E. Lee	Non-executive Director
E. Chang	Non-executive Director, resigned 28 May 2018
H. Wang	Non-executive Director, appointed 28 May 2018
E. Cheng	Executive Director (Chief Executive Officer – TBG Inc/Chief Operating Officer – TBG Diagnostics Limited), resigned 1 February 2019 Non-Executive Director, appointed 1 February 2019

(ii) Executives

J. Stedwell	Company Secretary
G. Hipona	Chief Finance Officer
W. Hsu	Chief Operating Officer, appointed 1 February 2019

There have been no other changes to the KMP after the reporting date and before the date the financial report was authorised for issue, except as noted above.

A. Principles used to determine the nature and amount of remuneration

Remuneration Philosophy

Remuneration levels are competitively set to attract the most qualified and experienced directors and executives. The remuneration structures outlined below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creating shareholder value.

The Board ensures that executive reward satisfies the following criteria for good reward corporate governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

Remuneration packages may include a mix of fixed and variable remuneration including performance based bonuses and equity plans.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Directors' Report

continued

10. Remuneration Report (audited) (continued)

Executive and Non-executive Director Remuneration

Executive and Non-executive directors' fees reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed periodically by the Board and were last done so on 11 November 2015.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of the non-executive directors shall be determined from time to time by a general meeting of shareholders. The current aggregate fee pool limit is $500,000 per annum as approved by shareholders at the 2007 AGM.

As of 28 February 2019, fees being paid to executive and non-executive directors' has a total aggregate amount of $40,000 per annum for each executive and non-executive director, inclusive of board committee fees. The fees paid to the executive Chairman amounted to $80,000, inclusive of board committee fees.

Retirement allowances are not paid to non-executive directors other than contributing superannuation to the directors' fund of choice. This benefit forms part of the directors' base fees.

The remuneration of executive and non-executive directors for the periods ended 31 December 2018 and 31 December 2017 is detailed in table 1 and 2 of this report.

Executive Remuneration

The executive pay and reward framework has two components:

- fixed remuneration including base pay and benefits; and
- variable remuneration including performance related bonuses and equity plans.

Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration consists of base remuneration, as well as employer contributions to superannuation funds. Executives are given the opportunity to receive their fixed base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue additional cost for the Company.

Fixed remuneration is generally reviewed annually by the remuneration committee. This process consists of a review of individual performance and overall performance of the Company. The Committee has access to external advice independent of management.

The Company does not pay retirement benefits to any senior executives other than contributing superannuation to the senior executives' fund of choice. Pension benefits are also paid for executives of the overseas subsidiaries in accordance with a defined contribution plan. This benefit forms part of the senior executives' base remuneration.

The fixed remuneration component of executives is detailed in table 2.

Performance related bonuses

At 31 December 2018, performance related bonus of $10,247 (TWD230,500) was granted and paid to an eligible executive (2017: nil).

Retention Bonus

No retention bonuses were paid or granted throughout the year ended 31 December 2018 (2017: nil).

Retirement benefits

The company meets its obligations under the Superannuation Guarantee Legislation.

Equity plans

The company is able to issue share options under the TBG Directors and Employees Option Incentive Plan. The objective of the equity plan is to reward executives in a manner that aligns remuneration with the creation of shareholder wealth.

Information on all options vested during the year is detailed in table 5 and further detail of the plan is in Note 16.

Group Performance

In considering the consequences of the Company's performance on shareholder wealth the Board are focused on total shareholder returns. In the Company's case this consists of the movement in the Company's share price rather than the payment of dividends. Given the current stage of the Company's development, it has never paid a dividend and does not expect to in the near future.

The Company incurred net loss during the year ended 31 December 2018 of $4,393,330 (2017: $6,547,692).

Directors' Report

continued

10. Remuneration Report (audited) (continued)

The following table shows the change in the Company's share price and market capitalisation as compared to the total remuneration (including the fair value of options granted) during the current financial year and the previous four financial years:

	31 Dec 2018	31 Dec 2017	31 Dec 2016	30 Jun 2016	30 Jun 2015
Share price at end of year	$0.06	$0.06	$0.18	$0.20	$0.18
Change in share price	($0.01)	($0.12)	($0.02)	$0.02	$(0.62)
Market capitalisation at end of year	$12,402,475	$13,055,237	$39,165,712	$43,517,458	$9,951,357
Change in market capitalisation	($652,762)	($26,110,475)	($4,351,746)	$33,566,101	$(34,276,895)
Total Key Management Personnel remuneration	$544,683	$476,600	$293,705	$888,201[1]	$1,186,089

1 Of this amount, $319,085 is remuneration received by directors and key management personnel of TBG Inc (accounting parent) including TBG Diagnostics Limited (legal parent) from 29 January 2016 to 30 June 2016.

There were no expenses in relation to options issued to key management personnel of the group during the period 31 December 2018 financial year (2017: $nil) - See Table 2.

The Directors believe that the base remuneration of the Board and executives reflects market compensation for these roles. Short Term Incentives (STI) of $10,247 (TWD230,500) were paid to Directors and Key Management during the year ended 31 December 2018 (2017: $nil).

Directors' Report

continued

10. Remuneration Report (audited) (continued)

B. Details of remuneration of key management personnel of TBG Diagnostics Limited (legal parent)

Table 1: Directors' remuneration for the year ended 31 December 2018.

		Short term			Post-employment	Long term benefits	Share-based payment		
Directors		**Salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Long service leave $**	**Options $**	**Total $**	**Options Remuneration %**
Indrajit Arulampalam	31 Dec 2018	80,000	–	–	–	–	–	80,000	–
	31 Dec 2017	80,000	–	–	–	–	–	80,000	–
Stanley Chang	31 Dec 2018	40,000	–	–	–	–	–	40,000	–
	31 Dec 2017	40,000	–	–	–	–	–	40,000	–
Eugene Cheng	31 Dec 2018	112,351	10,247[4]	45,605	–	–	–	168,203	–
	31 Dec 2017	50,949[1]	–	49,975	–	–	–	100,924	–
Emily Lee	31 Dec 2018	40,000	–	–	–	–	–	40,000	–
	31 Dec 2017	40,000	–	–	–	–	–	40,000	–
Edward Chang[2]	31 Dec 2018	16,667	–	–	–	–	–	16,667	–
	31 Dec 2017	40,000	–	–	–	–	–	40,000	–
Hsi-Kai Wang[3]	31 Dec 2018	23,333	–	–	–	–	–	23,333	–
	31 Dec 2017	–	–	–	–	–	–	–	–
Total – Executive and Non-Executive Directors	31 Dec 2018	312,351	10,247	45,605	–	–	–	368,203	–
	31 Dec 2017	250,949	–	49,975	–	–	–	300,924	–

1 Includes executive compensation of $10,949 as the CEO of TBG Inc for the period from 1 November 2017 to 31 December 2017. Executive compensation from 1 January 2017 to 31 October 2017 were paid by the parent entity, Medigen Biotechnology Corp. No liabilities were recognised in the accounts for those periods.

2 Resigned 28 May 2018

3 Appointed 28 May 2018

4 100% of the bonus vested in the 2018 year upon meeting certain non-contractual objectives

Directors' Report

continued

10. Remuneration Report (audited) (continued)

Table 2: Remuneration for the other key management personnel for the year ended 31 December 2018.

		Short term			Post-employment	Long term benefits	Share-based payment			
Other key management personnel		**Salary and fees[1] $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Long service leave[2] $**	**Options $**	**Termination payments $**	**Total $**	**Options Remuneration %**
Generosa Hipona	31 Dec 2018	124,285	–	–	12,515	3,680	–	–	140,480	–
	31 Dec 2017	123,399	–	–	12,093	4,184	–	–	139,676	–
Justyn Stedwell	31 Dec 2018	36,000	–	–	–	–	–	–	36,000	–
	31 Dec 2017	36,000	–	–	–	–	–	–	36,000	–
Total - Other key management personnel	31 Dec 2018	160,285	–	–	12,515	3,680	–	–	176,480	–
	31 Dec 2017	159,399	–	–	12,093	4,184	–	–	175,676	–

1 Includes changes in accrual for annual leave
2 This pertains to the movements in long service leave provision

Directors' Report

continued

10. Remuneration Report (audited) (continued)

C. Service Agreements

The Company's policy is to enter into service contracts with executive directors and senior executives on appointment that are unlimited in term but capable of termination on specified notice periods; and that the Company has the right to terminate the contract immediately by making payment equal to the specified notice period as pay in lieu of notice other than for misconduct when termination is immediate. The executive directors and senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual leave and long service leave.

The service contract outlines the components of remuneration paid to the executive directors and key management personnel but does not prescribe how remuneration levels are modified year to year.

The current base remuneration, short-term incentive arrangements and termination notice periods included in the service agreements with key management personnel are detailed below:

J Stedwell, Company Secretary

- Term of consultancy agreement – variable depending on completion of projects
- Consulting fees paid on a monthly rate of $3,000 with a 5% increase per year
- Termination payments – one month notice within the first 2 years of service; two to five months' notice between 3 to 6 years of service; and six months' notice after 6 years of continued service

G Hipona, Chief Finance Officer

- Term of agreement – unlimited, capable of termination on notice of 4 weeks.
- Base salary, inclusive of superannuation, of $140,480 last reviewed on 12 December 2018

I.S Arulampalam, Executive Chairman – TBG Diagnostics Ltd

- Term of agreement – unlimited, no provision for termination notice
- Base director's fee, inclusive of superannuation, of $80,000 last reviewed on 11 November 2015

E Cheng, *Executive Director / Chief Executive Officer – TBG Inc. / Chief Operating Officer – TBG Diagnostics Ltd*

- Term of agreement – unlimited, no provision for termination notice
- Base directors fee, inclusive of superannuation, of $40,000 last reviewed on 26 February 2019
- Base salary of TW$ 2,115,000 ($90,820), last reviewed on 30 October 2017
- Variable short -term incentives based on achievement of certain financial and non-financial objectives
- Fixed non-monetary benefits include car rental fees that are being paid by TBG Biotechnology Corp. (Taiwan)

D. Share-Based Payments

During the year ended 31 December 2018 there were no options vested and outstanding with directors and key management personnel of the Group under the terms of The TBG Directors and Employee Option Incentive Plan.

Directors' Report

continued

10. Remuneration Report (audited) (continued)

There was nil value of options granted and exercised during the year ended 31 December 2018 to directors and key management personnel.

E. Key Management Personnel Equity Holdings

(i) Option holdings of key management personnel

	Balance at beginning of period 1 Jan 2018	Granted as remuneration	Options forfeited	Options Lapsed[3]	Balance at end of period 31 Dec 2018	At 31 December 2018 Total Vested	At 31 December 2018 Total Non-Vested
Directors							
I.S. Arulampalam	120,000	–	–	(120,000)	–	–	–
S. Chang	–	–	–	–	–	–	–
E. Cheng	–	–	–	–	–	–	–
E. Lee	–	–	–	–	–	–	–
E. Chang[1]	–	–	–	–	–	–	–
H. Wang[2]	–	–	–	–	–	–	–
Executives							
G. Hipona	25,000	–	–	(25,000)	–	–	–
J. Stedwell	–	–	–	–	–	–	–
Total	145,000	–	–	(145,000)	–	–	–

1 Resigned 28 May 2018
2 Appointed 28 May 2018
3 Options lapsed due to non-exercise. The value at lapse date of options that were granted as part of remuneration and that lapsed during the year was nil.

Directors' Report

continued

10. Remuneration Report (audited) (continued)

(ii) Shareholdings of key management personnel

Ordinary shares held in TBG Diagnostics Limited	Balance 1 Jan 18	On exercise of options	Net change other	Balance 31 Dec 18
Directors				
I.S. Arulampalam	40,000	–	–	40,000
S. Chang	500,000	–	–	500,000
E. Cheng	–	–	–	–
E. Lee	91,207	–	–	91,207
E. Chang[1]	–	–	–	–
H. Wang[2]	–	–	–	–
Executives				
G. Hipona	–	–	–	–
J. Stedwell	–	–	–	–
Total	631,207	–	–	631,207

1 Resigned 28 May 2018
2 Appointed 28 May 2018

11. Loans to Directors and Executives

No loans have been paid to Company directors or executives during the year.

12. Other transactions with key management personnel

There were no other transactions with key management personnel during the year.

13. Remuneration Consultant

No remuneration consultants were engaged during the year ended 31 December 2018.

End of Remuneration Report (audited)

Directors' Report

continued

14. Environmental Regulations

The Company complies with all environmental regulations applicable to its operations and there have been no significant known breaches.

15. Rounding

For the year ended 31 December 2018, amounts contained in this report and in the financial report have been rounded to the nearest dollar in accordance with *ASIC Legislative instrument 2016/191*.

16. Indemnification and Insurance of Directors and Officers

The Company has agreed to indemnify directors and officers in respect of certain liabilities incurred while acting as a director of any group company. During the financial year, the company paid a premium in respect of a contract insuring the directors of the company, the company secretary, and all executive officers of the company against a liability incurred as a director, company secretary or executive officer to the extent permitted by the *Corporations Act 2001*. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium. No other insurance premiums have been paid or indemnities given, during or since the end of the year, for any person who is or has been an officer or auditor of the Company.

17. Auditor Independence and Non-audit Services

The Auditors' Independence Declaration on page 36 forms part of the Directors' Report.

Non-audit services

The following non-audit services were provided by the entity's auditor, BDO Audit Pty Ltd and its associated firms. The directors are satisfied that the provision of non-audit services is compatible with the general audit standards of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity and its related practices:

	$
BDO (QLD) Pty Ltd - Tax related services	14,360

18. Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Directors' Report

continued

19. Shares under option

Unissued ordinary shares of TBG Diagnostics Limited under option at the date of this report are as follows:

Grant date	Expiry Date	Exercise Price	Number of Options
13 May 2016	13 May 2022	$0.30	1,350,000
13 May 2016	13 May 2022	$0.30	637,500
13 May 2016	13 May 2022	$0.40	637,500
13 May 2016	13 May 2022	$0.30	600,000
Total			3,225,000

There were no options granted as remuneration to key management personnel during the period. Details of options granted to key management personnel are disclosed in section 10E of the Remuneration report. There are no Officers in the Company who are not also identified as key management personnel.

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

No shares were issued on exercise of options during the period.

Signed in accordance with a resolution of the board of directors.

Jitto Arulampalam
Executive Chairman
Date: 21 March 2019

Eugene Cheng
Non-Executive Director
Date: 21 March 2019

Auditor's Independence Declaration

AUDITOR'S INDEPENDENCE DECLARATION

BDO

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Australia

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

As lead auditor of TBG Diagnostics Limited for the year ended 31 December 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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, 21 March 2019

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	Consolidated 12 months ended 31 Dec 2018 $	Consolidated 12 months ended 31 Dec 2017 $
REVENUE FROM CONTINUING OPERATIONS	4 (a)	3,152,830	3,451,379
Cost of Sales		361,593	773,776
GROSS PROFIT		2,791,237	2,677,603
Other income	4 (b)	197,967	1,146,321
EXPENSES			
Research and development expenses		2,094,669	2,072,566
Administrative and corporate expenses		2,463,839	2,545,434
Selling expenses		962,233	917,438
		5,520,741	5,535,438
LOSS FROM CONTINUING OPERATIONS BEFORE TAX		(2,531,537)	(1,711,514)
Income tax expense	7	-	-
Loss from continuing operations		(2,531,537)	(1,711,514)
Loss from discontinued operations	5	(1,861,793)	(4,836,178)
NET LOSS FOR THE YEAR		(4,393,330)	(6,547,692)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Foreign currency translation		877,920	(68,888)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		877,920	(68,888)
TOTAL COMPREHENSIVE INCOME (LOSS)		(3,515,410)	(6,616,580)
Net loss attributable to:			
- Equity holders of the Company	8	(4,149,786)	(6,540,390)
- Non-controlling interest	27 (d)	(243,544)	(7,302)
Total comprehensive income attributable to:			
- Equity holders of the Company		(3,287,977)	(6,607,276)
- Non-controlling interest		(227,433)	(9,304)
Total comprehensive income for the year attributable to owners of TBG Diagnostics Limited arises from			
- Continuing operations		(1,573,633)	(4,358,103)
- Discontinued operations		(1,714,344)	(2,249,173)
Basic and diluted loss per share – continuing operations attributable to equity holders of the Company (cents per share)	8	(1.2)	(0.8)
Basic and diluted loss per share (cents per share)	8	(2.0)	(3.0)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 31 December 2018

	Note	Consolidated 31 Dec 2018 $	Consolidated 31 Dec 2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	10 (a)	5,647,021	7,918,213
Trade and other receivables	11	620,084	1,169,767
Inventories	12	811,152	781,059
Prepayment and other current assets		103,319	859,818
Receivables and other assets	13	-	957,038
Assets classified as held for sale	5 (d)	4,433,361	-
Total Current Assets		11,614,937	11,685,895
Non-current Assets			
Receivables and other assets	13	217,867	901,178
Plant and equipment	14	1,445,079	3,047,433
Intangible assets	15	-	755,977
Total Non-current Assets		1,662,946	4,704,588
TOTAL ASSETS		13,277,883	16,390,483
LIABILITIES			
Current Liabilities			
Trade and other payables	17	743,823	1,357,424
Provisions	18	15,901	18,987
Liabilities directly associated with assets classified as held for sale	5 (d)	643,502	-
		1,403,226	1,376,411
Non-current Liabilities			
Provisions	18	25,515	20,336
Total Non-current Liabilities		25,515	20,336
TOTAL LIABILITIES		1,428,741	1,396,747
NET ASSETS		11,849,142	14,993,736
EQUITY			
Contributed equity	19	36,211,120	36,211,120
Reserves	20	3,543,593	2,723,660
Accumulated losses	20	(28,479,908)	(24,330,122)
Capital and reserves attributable to owners of TBG Diagnostics Ltd		11,274,805	14,604,658
Non-controlling interests	27 (d)	574,337	389,078
TOTAL EQUITY		11,849,142	14,993,736

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the year ended 31 December 2018

Consolidated	Contributed Equity $	Accumulated losses $	Other reserves $	Foreign currency translation reserve $	Total $	Non-controlling interests $	Total equity $
	Attributable to owners of TBG Diagnostics Limited						
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	–	(6,540,390)	–	–	(6,540,390)	(7,302)	(6,547,692)
Other Comprehensive Income, net of tax	–	–	–	(66,886)	(66,886)	(2,002)	(68,888)
Total Comprehensive Income for the year	–	(6,540,390)	–	(66,886)	(6,607,276)	(9,304)	(6,616,580)
Transactions with owners in their capacity as owners:							
Proceeds from capital contribution	–	–	–	–	–	398,382	398,382
Cost of share-based payments	–	–	223,764	–	223,764	–	223,764
At 31 December 2017	36,211,120	(24,330,122)	363,616	2,360,044	14,604,658	389,078	14,993,736
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	–	(4,149,786)	–	–	(4,149,786)	(243,544)	(4,393,330)
Other Comprehensive Income, net of tax	–	–	–	861,809	861,809	16,111	877,920
Total Comprehensive Income for the year	–	(4,149,786)	–	861,809	(3,287,977)	(227,433)	(3,515,410)
Transactions with owners in their capacity as owners:							
Proceeds from capital contribution	–	–	–	–	–	412,692	412,692
Cost of share-based payments	–	–	(41,876)	–	(41,876)	–	(41,876)
At 31 December 2018	36,211,120	(28,479,908)	321,740	3,221,853	11,274,805	574,337	11,849,142

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 31 December 2018

	Note	Consolidated 12 months ended 31 Dec 2018 $	Consolidated 12 months ended 31 Dec 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		5,342,441	3,708,971
Payments to suppliers, employees and others		(8,225,520)	(7,328,120)
Government grants received		76,695	1,126,065
Interest received		93,719	71,527
Finance costs		(14,237)	(12,208)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	10 (c)	(2,726,902)	(2,433,765)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash inflow from settlement of Luina Bio	13	1,800,000	-
Payments for property, plant and equipment	14	(1,474,787)	(426,990)
Payments of developments costs	15	-	(71,006)
Proceeds from sale of equipment		124,900	-
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		450,113	(497,996)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling interests in subsidiary		412,692	398,382
NET CASH INFLOW FROM FINANCING ACTIVITIES		412,692	398,382
NET (DECREASE) IN CASH HELD		(1,864,097)	(2,533,379)
Net foreign exchange differences		680,675	(190,408)
Cash and cash equivalents at beginning of period		7,918,213	10,642,000
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10 (b)	6,734,791	7,918,213

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 31 December 2018

Note 1. Corporate information

The consolidated financial report of TBG Diagnostics Limited (the 'Group') for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 21 March 2019.

TBG Diagnostics Limited (the 'parent' or 'Company') is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and the United States OTCQB Market. The nature of the operations and principal activities of the Group are described in Note 3. Medigen Biotechnology Corporation ('Medigen') holds 51.8% equity interest in the Company and is the group's ultimate parent company.

Note 2. Summary of significant accounting policies

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for the purpose of preparing the financial statements.

For the year ended 31 December 2018 amounts contained in this report and in the financial report have been rounded to the nearest dollar in accordance with ASIC Legislative Instrument 2016/191.

Statement of compliance

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

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

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

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods. The Group has decided against early adoption of these standards. The Group's assessment of the impact of these new standards and interpretations is set out below:

AASB 16 Leases

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.

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this standard will replace the current accounting requirements applicable to leases in AASB117 Leases and related interpretations. AASB16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. This means that for all leases, a right-to-use asset and a liability will be recognised, with the right-to-use asset being depreciated and the liability being unwound in principal and interest components over the life of the lease.

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 $455,403. 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.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the legal parent entity (TBG Diagnostics Limited) is disclosed in Note 6.

Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity.

Business combinations and asset acquisitions

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

All identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of profit or loss and other comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Acquisitions of entities that do not meet the definition of a business contained in AASB 3 *Business Combinations* (IFRS 3) are not accounted for as business combinations. In such cases the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, *intangible assets* in AASB 138 *Intangible Assets* (IAS 38) and liabilities assumed. The cost of the group of net assets is then allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities are:

(ii) Leasehold improvements

The Group rents a facility in Xiamen via a lease agreement with the Xiamen Haicang Biotechnology Limited and has capitalised leasehold improvements as disclosed in Note 14.

The original lease agreement included an option to acquire the property at the end of the lease as disclosed in the 31 December 2017 financial statements. The lease expired during the year ended 31 December 2018 and the Group was advised that the option to acquire the property was unable to be exercised.

The Group has received confirmation from Xiamen Haicang Biotechnology Limited to grant extension of the lease of the manufacturing facility for another four years and nine months from 1 December 2018 to 31 August 2023. To date, a formal lease agreement has not yet been completed.

The Group has continued to recognise the leasehold improvements and depreciate these assets over the shorter of the remaining useful life of the asset and the expected life of the lease.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

Going Concern

The Group incurred a net loss of $4,393,330 for the year ended 31 December 2018. As at 31 December 2018, the Group has cash reserves of $6,734,791 (including cash classified as part of a disposal group of $1,087,770), net current assets of $5,778,350 (excluding assets classified as held for sale of $4,433,361) and net assets of $11,849,142. As disclosed in Note 5, the Group announced that it has entered into an agreement that will result in a loss of control of TBG Xiamen, which currently generates net cash outflows.

Current cash inflows are not sufficient to continue to fund operations and based on current and projected expenditure levels, management contemplates a capital raising or other financing may be required to continue to fund operations in the future. The ability of the Group to continue as a going concern is principally dependent upon one or more of the following:

- The ability of the Group to meet the its revenue and cash flow forecasts;
- the ability of the Group to raise additional capital funding in the form of equity and/or government sponsored research;
- the ability to successfully complete the agreement referred to in Note 5;
- the continued support of the current shareholders;

These conditions give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

In the past, the Group has been able to raise funds in order to meet its capital requirements and the directors will continue to explore ways to obtain the needed funding for the continuity and further development of the Group's assets.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- Management is closely monitoring it cash flow requirements against budget and expects to meet the current forecasts;
- The directors expect the completion of the transaction referred to in Note 5 will occur in March 2019. This is expected to reduce the cash outflows of the group;
- To date the Group has funded its activities through issuance of equity securities where required and it is expected that the Group will be able to fund its future activities through further issuances of equity securities; and
- The directors believe there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

AASB 15 Revenue from Contracts from 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.

AASB 15 Revenue from Contracts from 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.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

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.

(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.

Leases – refer Note 4 and Note 22

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in the profit or loss as an integral part of the total lease expense. There are no finance leases.

Cash and cash equivalents – refer Note 10

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Trade and other receivables – refer Note 11 and 13

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

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.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

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.

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 13 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.

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.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

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.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Australian dollars, which is TBG Diagnostics Limited's presentation currency. TBG Inc.'s functional currency is in Taiwanese dollars converted to Australian dollars to conform to the group's presentation currency.

(ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

(iii) Translation of Group Companies functional currency to presentation currency

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Monetary assets and liabilities are translated at the spot rate of exchange at reporting date.
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

- Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.
- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, and the timing or the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax – refer Note 7

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, and the timing or the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Value Added Taxes (Including Goods and Services Tax)

Revenues, expenses and assets are recognised net of the amount of Value Added Tax (VAT), except where the amount of VAT is not recoverable from the relevant tax authority. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or as part of the item as expense. Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the relevant tax authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The VAT components of the cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant tax authority are classified as operating cash flows.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- when the VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the taxation authority.

Inventories – refer Note 12

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost or net realisable value. Net realisable value is estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

Non-current assets (or disposal groups) held for sale and discontinued operations - refer Note 5

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss and other comprehensive income.

Plant and equipment – refer Note 14

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Machinery & office equipment	3 to 15 years
Leasehold improvements	Shorter of rental period and useful life
Motor vehicles	4 to 5 years
Testing equipment	3 to 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

(ii) Derecognition and disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Intangibles – refer Note 15

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability or resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project on a straight-line basis.

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

Patents

Patents acquired as part of a business combination are recognised separately from goodwill. The patents are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the patent expiry dates on a straight-line basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/business at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from business combination in which goodwill arose, identified according to operating segments or components of operating assets.

Trade and other payables – refer Note 17

Trade payables and other payables are carried at amortised cost and their fair value approximates their carrying value due to their short term nature. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Provisions – refer Note 18

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. Annual leave accrued and expected to be settled within 12 months of the reporting date is recognised in current provisions. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Share-based payment transactions – refer Note 16

(i) Equity-settled transactions:

The Group provides benefits to employees (including senior executives) and consultants of the Group in the form of share-based payments, whereby employees and consultants render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of rights over shares is determined using a binomial, other appropriate model, further details of which are given in Note 16. The fair value of shares is determined by the market value of the Group's shares at grant date.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Group (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

Notes to the Financial Statements

continued

Note 2. Summary of significant accounting policies (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

i. the extent to which the vesting period has expired; and
ii. the Group's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Contributed equity – refer Note 19

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share – refer Note 8

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Group, adjusted for:

- costs of servicing equity;
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Operating segments – refer Note 3

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

Note 3. 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.

The legal parent is domiciled in Australia. The amount of its revenue from external customers in Australia is $nil (2017: nil).

Segment revenues are allocated based on the country in which the customer is located.

The legal parent is domiciled in Australia. The amount of its revenues from external customers in Australia is $nil (2017: $nil). Total revenues of $3,152,830 (2017: $3,451,379) were derived from Taiwan.

Revenues of $1,473,433 (2017: $2,272,800) were derived from two regular customers in Taiwan composing 46.7% (2017: 56.5%) of total revenues for the group.

Out of total revenues, $954,586 (2017: $1,815,907) was derived from a related party in Taiwan. This revenue is attributable to the In Vitro Diagnostics segment. Intersegment transactions of $743,962 (2017: $399,716) were eliminated pertaining to revenues and costs within the group.

Non-current assets located in Australia is $2,981 (2017: $6,039) and non-current assets located overseas is $2,209,257 (2017: $3,797,371) Segment assets are allocated to countries based on where the assets are located.

Notes to the Financial Statements

continued

Note 4. Revenue and expenses

	Consolidated	
	12 months ended 31 Dec 2018 $	**12 months ended 31 Dec 2017 $**
(a) Revenue		
Sales revenue	2,848,954	2,931,848
Technical services revenue	303,876	519,531
Total revenue from continuing operations	3,152,830	3,451,379
(b) Other income		
Interest and other	72,360	54,882
Research & development tax incentive	12,628	1,091,439
Foreign exchange gain	112,079	-
Total other income	197,067	1,146,321
(c) Depreciation		
Depreciation – continuing operations	563,619	580,673
Depreciation – discontinued operations	590,281	589,999
	1,153,900	1,170,672
(d) Lease payments		
Minimum lease payments – operating leases	367,744	325,071
(e) Employee benefit expenses		
Wages and salaries	1,905,591	1,675,318
Long service leave provision	2,093	1,643
Share-based payment expense	(41,876)	223,764
(f) Finance costs		
Bank charges	13,594	10,361
(g) Impairment		
Goodwill impairment	390,601	-

Notes to the Financial Statements

continued

Note 5. Assets and liabilities classified as held for sale and discontinued operations

(i) Summary of gains and losses from discontinued operations

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Disposal of TBG Biotechnology Co. (Xiamen) Inc.- (ii)	(2,072,282)	(2,148,532)
Disposal of Progen PG500 Series Pty Ltd – (iii)		
– Interest revenue	1,137,576	882,047
– Impairment of receivables	(1,137,576)	(3,926,738)
	-	(3,044,691)
Discontinued Operation - Disposal of PharmaSynth Pty Ltd - (iv)	210,489	357,045
Total loss from discontinued operations	1,861,793	4,836,178

(ii) Disposal Group – Disposal of TBG Biotechnology Co. (Xiamen) Inc.

(a) Description

On 17 December 2018, the Group announced that it has entered into an agreement (through its wholly owned subsidiary TBG Biotechnology (Xiamen) Inc. ("TBG Xiamen")) to acquire Zhangsha ZhangYe Medical Laboratory Corp. ("ZhangYe"), a company incorporated in China which conducts a business of providing medical laboratory testing services to hospitals and the community, and which is based in the city of Zhangsha in Hunan Province.

TBG Xiamen was incorporated in 2014 to address the government requirements of Haicang, China, for foreign entities operating genetic testing businesses in the Xiamen region of China and carries on a business of research and development and manufacturing molecular diagnostic kits and instruments.

In consideration for the acquisition of 100% issued capital in ZhangYe the Company will transfer shares constituting 42.1% of TBG Xiamen to the founding shareholders of Zhangsha ZhangYe Medical Laboratory Corp. DongYuan Huaxin (Beijing) Capital Management Co Ltd ("DongYuan"), one of the parties in the agreement, is a private equity firm incorporated in China and will provide capital investment into TBG Xiamen. DongYuan is a consulting and advisory company which aims to strategically grow the reach of many of the businesses it invests in, including by leveraging off its relationships in China and Asia Pacific to expand its portfolio companies' capabilities.

Under the agreement with DongYuan, shares equaling 11.25% of TBG Xiamen's share capital will be issued to DongYuan for cash consideration of RMB 10,679,283, which will be reinvested in TBG Xiamen ("DongYuan Investment"). After completion of the transactions, the Company will hold 46.65% of the equity in TBG Xiamen and TBG Xiamen will hold 100% of the equity in ZhangYe, such that the Company will indirectly hold an interest of 46.65% in ZhangYe. Under the terms of the agreement, the proposed acquisition of ZhangYe will result in ZhangYe shareholders holding a controlling interest in the TBG Xiamen while the Company will obtain a significant influence through its investment after the transaction. As a result, it is expected that the transaction will be accounted for as an 'Investment in Associate' under the equity method of accounting in accordance with the requirements of AASB 128 *Investments in Associates and Joint Ventures (AASB 128).*

On 18 February 2019, TBG Xiamen received 5,000,000 RMB as partial payment from DongYuan in respect of the cash contribution described above.

The purpose of the disposal is for the Company to draw on the capabilities and resources of ZhangYe and DongYuan in order to develop synergies between each of the businesses of ZhangYe and DongYuan and TBG Xiamen, and to expand further the molecular diagnostics business of TBG Xiamen within the China and Asia Pacific markets. As negotiations between the parties have been finalised, further final procedures are being taken to complete the transaction which is expected to occur within the first quarter of 2019. Accordingly, the assets and liabilities attributable to TBG Xiamen and its subsidiaries have been classified as disposal group held for sale and are presented separately in the statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities, and accordingly, no impairment loss has been recognised on the classification of this disposal group as held for sale.

Notes to the Financial Statements

continued

Note 5. Assets and liabilities classified as held for sale and discontinued operations (continued)

(b) Results of disposal group

	2018 $	2017 $
Revenue	1,536,355	573,425
Cost of sales	(724,796)	(247,882)
Gross profit	811,559	325,543
Other income	71,090	35,071
Operating expenses		
Selling expenses	(309,131)	(160,963)
Administrative expenses	(1,713,630)	(1,381,424)
Research and development expenses	(932,170)	(966,759)
	(2,954,931)	(2,509,146)
Results from operating activities	(2,072,282)	(2,148,532)
Income tax	–	–
Loss before income tax	(2,072,282)	(2,148,532)
Income tax	–	–
Net loss from discontinued operations	(2,072,282)	(2,148,532)
Other comprehensive income	130,505	(109,945)
Total comprehensive income (loss) from discontinued operations	(1,941,777)	(2,258,477)
Net loss attributable to non-controlling interest	(243,544)	(7,302)
Basic and diluted loss per share – discontinued operations (cents per share)	(1.0)	(1.0)

(c) Cash flows from disposal group

	2018
Net cash outflow from operating activities	122,605
Net cash outflow from investing activities	(1,264,950)
Net cash outflow from financing activities	412,692
Foreign exchange differences	130,862
Net cash flow for the period	(598,791)

Notes to the Financial Statements

continued

Note 5. Assets and liabilities classified as held for sale and discontinued operations (continued)

(d) Assets and liabilities of disposal group classified as held for sale

At 31 December 2018, the disposal group, **TBG Biotechnology (Xiamen) Inc.** comprised the following assets and liabilities.

	2018 $
Assets classified as disposal group	
Cash and cash equivalents	1,087,770
Receivables	57,692
Inventories	376,531
Prepayments and other current assets	170,258
Property, plant and equipment	1,987,529
Intangible Asset	376,558
Other non-current assets	377,023
Total assets of disposal group held for sale	4,433,361
Liabilities directly associated with assets classified as held for sale	
Trade payables	201,305
Other current liabilities	442,197
Total liabilities of disposal group held for sale	643,502
Net assets of disposal group	3,789,859

(iii) Discontinued Operation - 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.

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.

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. This did not occur during the period, however, a final extension of the Conversion End Date to 31 March 2019 was approved on 21 February 2019.

Interest revenue of $1,137,576 (2017: $882,047) has been recognised with a concurrent impairment provision recognised for the same amount in 2018 (2017: $3,926,738). This has been recognised as part of discontinued operations.

(iii) 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 $2,100,000. 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 13, 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: $357,045) for the period.

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

Notes to the Financial Statements

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Note 6. Parent entity disclosure

Parent entity information required to be disclosed in accordance with the *Corporations Act 2001*. The legal parent entity of the group is TBG Diagnostics Ltd and the results shown below are for the year ended 31 December 2018 and 2017:

	Legal Parent	
	31 Dec 2018 $	31 Dec 2017 $
Current assets	2,370,255	1,797,518
Total assets	10,711,540	11,756,684
Current liabilities	216,421	251,768
Total liabilities	241,935	272,104
Shareholders' equity		
Contributed equity	170,938,803	170,938,803
Options Reserves	338,303	451,029
Accumulated losses	(160,807,501)	(159,905,251)
	10,469,605	11,484,580
Net loss for the year	973,100	3,111,343
Total comprehensive income	973,100	3,111,343

The legal parent entity has no contingent assets, contingent liabilities or contractual commitments relating to the purchase of property, plant or equipment.

Note 7. Income tax

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
The prima facie tax, using tax rates applicable in the country of operation, on loss before income tax differs from the income tax provided in the financial statements as follows:		
Prima facie tax on loss before income tax @ 30%	(1,317,999)	(1,964,308)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Prior year R&D tax refund	(23,008)	(327,432)
Non-assessable items/Deductible items	(420,627)	1,267,665
Non-deductible items/Assessable items	377,778	(371,728)
Foreign tax rate adjustment	991,145	1,146,705
Under/ over provision	(805,894)	(498,797)
Deferred tax assets not recognised	1,198,605	747,895
Income tax benefit	–	–

Notes to the Financial Statements
continued

Note 7. Income tax (continued)

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Deferred income tax		
Deferred income tax at 31 December relates to the following:		
Deferred tax liabilities		
Prepayment and other asset	(266)	(448)
Deferred tax assets		
Unearned revenue	6,448	172
Sundry creditors and accruals	46,056	42,218
Depreciation	780	821
Employee entitlements	12,425	11,797
Share issue costs, legal and management consulting fees	49,819	74,728
Patent costs	95,877	104,466
Unrealised foreign exchange loss	16,471	24,727
Losses available for offset against future taxable income	4,932,176	4,111,468
Deferred tax asset	5,159,786	4,369,949
Net deferred tax asset not recognised	(5,159,786)	(4,369,949)
Net deferred income tax assets	-	-

The benefit of the deferred tax asset will only be obtained if:

i. future assessable income of a nature and of an amount sufficient to enable the benefit to be realised is generated;
ii. the conditions for deductibility imposed by tax legislation continue to be complied with; and
iii. no changes in tax legislation adversely affect the Group in realising the benefit.

The Group has 1) revenue tax losses arising in Australia of $6,604,709 (2017: $5,527,060) and capital losses of $5,622,506 (2017: $5,622,506); 2) revenue tax losses arising in Taiwan of TW$ 69,283,980 (2017: TW$41,621,762); and 3) revenue tax losses arising in China of CNY 25,958,560 (2017: CNY17,322,578) that are available indefinitely and/or a certain period for offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules.

The Group's US subsidiary, Texas Biogene Inc, has US federal and state net operating loss carry-forwards of US$617,289 (2017 US$609,967) which have a carry forward period between 2017 – 2036 and are available for a maximum of 20 years, subject to continuity of ownership test.

Notes to the Financial Statements

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Note 8. Earnings/(loss) per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated	
	31 Dec 2018 $	**31 Dec 2017 $**
Earnings used to calculate basic and diluted EPS	(4,393,330)	(6,540,390)
Earnings used to calculate basic and diluted EPS – continuing	(2,531,537)	(1,711,514)

Weighted average number of shares and options	**Number of shares**	**Number of shares**
Weighted average number of ordinary shares outstanding during the period, used in calculating basic earnings per share	217,587,289	217,587,289
Weighted average number of dilutive options outstanding during the period	–	–
Weighted average number of ordinary shares and potential ordinary shares outstanding during the period, used in calculating diluted earnings per share	217,587,289	217,587,289

Basic loss per share amounts are calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

At 31 December 2018, there are 3,225,000 (2017: 5,110,000) options outstanding. Options are not considered dilutive as they are currently out of the money. Options may become dilutive in the future.

Note 9. Dividends paid and proposed

The entity has not declared or paid dividends and does not anticipate declaring or paying any dividends in the immediate term.

Note 10. Cash and cash equivalents

(a) Cash and cash equivalents per the statement of financial position:

	Consolidated	
	12 months ended 31 Dec 2018 $	**12 months ended 31 Dec 2017 $**
Cash and cash equivalents		
Cash at bank and on hand	3,319,560	4,801,409
Short-term deposits	2,327,461	3,116,804
Cash and cash equivalents	5,647,021	7,918,213

Notes to the Financial Statements

continued

Note 10. Cash and cash equivalents (continued)

(b) For the purpose of the statement of cash flows, cash and cash equivalents comprises the following:

		Consolidated 31 Dec 2018 $	Consolidated 31 Dec 2017 $
Cash at banks and on hand		3,319,560	4,801,409
Short-term deposits		2,327,461	3,116,804
Cash at banks and short-term deposits attributable to disposal group	5 (d)	1,087,770	-
		6,734,791	7,918,213

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one month to one year, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(c) Reconciliation of net loss after tax to net cash flows from operations

	Consolidated 31 Dec 2018 $	Consolidated 31 Dec 2017 $
Net loss	(4,393,330)	(6,547,692)
Adjustments for:		
Depreciation	1,153,900	1,170,672
Options expense	(41,876)	223,764
Interest amortisation using the effective interest rate method	(1,137,576)	(1,239,092)
Impairment of non-current receivables	1,137,576	3,926,738
Loss on disposal of plant and equipment	13,797	-
(Gain) / Loss on sale of subsidiary	(210,489)	-
Impairment of goodwill	390,601	-
Net exchange differences	(16,924)	325,071
Changes in operating assets and liabilities		
Decrease /(Increase) in trade and other receivables	491,991	(350,087)
Increase in inventories	(406,623)	(56,244)
Decrease /(Increase) in prepayments and other current assets	586,241	(71,804)
Increase in receivables and other assets	(326,185)	(21,038)
Increase in trade and other payables	29,902	202,311
Increase in provisions	2,093	3,636
Net cash used in operating activities	(2,726,902)	(2,433,765)

(d) Non-cash investing and financing activities

There were no non-cash investing or financing activities in the year ended 31 December 2018 (2017: $nil).

Notes to the Financial Statements

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Note 11. Trade and other receivables

	Consolidated	
Current	**31 Dec 2018 $**	**31 Dec 2017 $**
Trade receivables[1]	598,121	1,156,238
Other receivables	21,963	13,529
Total current trade and other receivables	620,084	1,169,767

1 Trade receivables are non-interest bearing and are generally on 30-90 day terms.

(a) Impaired trade and other receivables

There were no impaired current trade and other receivables at 31 December 2018 and 31 December 2017.

(b) Past due but not impaired

As at 31 December 2018, trade receivables of $48,761 (2017: $105,080) were past due but not impaired. This relates to the receivable from two regular customers and a related party for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	31 Dec 2018 $	**31 Dec 2017 $**
Up to 3 months	–	–
3 – 6 months	20,774	105,080
over 6 months	33,635	–
	54,409	105,080

Based on the credit history, it is expected that these amounts will be received within the next twelve months. The Group does not hold any collateral in relation to these receivables.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Concentration of credit risk

The Group's concentration of credit risk relates to its receivable from its related party of $281,796 (2017: $587,854).

Note 12. Inventories

	Consolidated	
Current	**31 Dec 2018 $**	**31 Dec 2017 $**
Products and finished goods	7,329	32,447
Raw materials	577,930	433,525
Work in process and semi-finished good[1]	225,893	315,087
Total inventories	811,152	781,059

1 Inventories recognised as costs during the year amounted to $783,511 (2017: $870,538). These were included as a component of Cost of Sales in the Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements

continued

Note 13. Receivables and other assets

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Receivables and other assets – current		
Receivables – current[1]	5,064,314	957,038
Less Allowance for impairment – Note 5 (iii)	(5,064,314)	-
	-	957,038
Receivables and other assets – Non-current		
Receivables – non-current[1]	-	4,559,211
Less Allowance for impairment – Note 5 (iii)	-	(3,926,738)
Other non-current assets[2]	217,867	268,705
	217,867	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. The two amounts have been discounted to their fair value at the time of sale. The receivable from Luina has been settled in full during 2018 at discounted amount of $1.8 million (2017: $957,038).

The Company 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 receivable balance relates to the deferred consideration arising from this disposal as described in Note 5(ii). At 31 December 2018, the present value of the deferred consideration was $5,064,314 (2017: $3,926,738). This has been impaired due to uncertainty around the recoverability of this amount as disclosed in Note 5.

2 Includes bank guarantee held for the purposes of a vendor agreement for outsourced production services in Taiwan. The restricted asset has a carrying value of $185,560 (TWD$ 4 million) with an expiry date of 15 April 2021.

Note 14. Non-current assets – plant & equipment

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Machinery & equipment at cost	1,341,450	2,457,940
Accumulated depreciation	(742,237)	(1,198,845)
	599,213	1,259,095
Testing equipment at cost	2,332,445	2,231,006
Accumulated depreciation	(1,486,579)	(1,216,256)
	845,866	1,014,750
Motor vehicles at cost	-	107,472
Accumulated depreciation	-	(90,222)
		17,250
Leasehold improvements at cost	-	1,709,634
Accumulated depreciation	-	(953,296)
	-	756,338
	1,445,079	3,047,433

Notes to the Financial Statements

continued

Note 14. Non-current assets – plant & equipment (continued)

Movements in carrying amounts

	Machinery & office equipment $	Testing equipment $	Motor vehicles $	Leasehold improvements $	Total $
Consolidated					
At 1 January 2017	1,354,586	823,331	48,505	1,089,885	3,316,307
Exchange differences	(7,108)	712	(944)	(14,623)	(21,963)
Transfers – internal (Note 15)	153,514	330,819	–	12,438	496,771
Additions – external	169,038	252,622	–	5,330	426,990
Depreciation	(410,935)	(392,734)	(30,311)	(336,692)	(1,170,672)
Disposals	–	–	–	–	–
At 31 December 2017	1,259,095	1,014,750	17,250	756,338	3,047,433
At 1 January 2018	1,259,095	1,014,750	17,250	756,338	3,047,433
Exchange differences	70,982	59,435	609	30,451	161,477
Transfers – internal (Note 15)	41,506	–	–	–	41,506
Additions – external	673,314	125,412	–	676,061	1,474,787
Depreciation	(412,230)	(353,731)	(12,207)	(375,732)	(1,153,900)
Disposals	(138,695)	–	–	–	(138,695)
Assets classified as held for sale and other disposals (Note 5)	(894,759)	–	(5,652)	(1,087,118)	(1,987,529)
At 31 December 2018	599,213	845,866	–	–	1,445,079

Note 15. Intangibles

	Consolidated 31 Dec 2018 $	Consolidated 31 Dec 2017 $
Goodwill at cost[1]	767,159	714,471
Assets classified as held for sale and other disposals (Note 5)	(376,558)	
Accumulated impairment	(390,601)	–
	–	714,471
Capitalised development costs at cost[2]	–	41,506
Accumulated amortisation	–	–
	–	41,506
	–	755,977

1 The goodwill arose from the acquisition of Texas Biogene and is directly related to the human leukocyte antigen (HLA) business of TBG Inc.

2 The Group has capitalised development costs in 2017 which relates to the software and related installation costs of the China subsidiaries. This has been transferred to Computer Software and formed part of Plant and Equipment of the Disposal Group.

Notes to the Financial Statements

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Note 15. Intangibles (continued)

Goodwill relates to the In Vitro Diagnostics segment. In the current and prior years, the recoverable amount of the CGU has been determined by value-in-use calculations. These calculations were based on the following key assumptions:

- Pre-tax discount rate: 21% (2017: 20%); and
- Long term growth rate: 2% (2017: 2%).

Cash flows were projected based on approved financial budgets and management projections over a five year period. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segment.

Based on the results of the analysis noted above, an impairment amount was recognised in relation to the goodwill at 31 December 2018 as the carrying amount is estimated to be lower than its recoverable amount. An impairment loss of $390,601 has been recognised in the current year, which was the full amount of the goodwill left after allocating a portion of it into the asset classified as held for sale. The impairment loss is recorded within administrative and corporate expenses in the statement of profit or loss and other comprehensive income.

Movements in carrying amounts

	Capitalised Development costs $	Goodwill $	Total $
Consolidated			
At 1 January 2017	651,571	711,759	1,363,330
Exchange differences	2,341	2,712	5,053
Additions	71,006	–	71,006
Transferred – internal (Note 14)	(496,771)	–	(496,771)
Other	(186,641)		(186,641)
At 31 December 2017	41,506	714,471	755,977
At 1 January 2018	41,506	714,471	755,977
Exchange differences		52,688	52,688
Additions		–	–
Transferred – internal (Note 14)	(41,506)	–	(41,506)
Assets classified as held for sale and other disposals (Note 5)		(376,558)	(376,558)
Impairment Charge		(390,601)	(390,601)
At 31 December 2018	–	–	–

Note 16. Share based payments

(a) Employee option plan

The TBG Directors and Employee Option Incentive Plan ("the Employee Plan") was last approved by shareholders at the 2010 annual general meeting.

Options granted to Company employees are issued under the Employee Plan. Options are granted under the Employee Plan for no consideration and once capable of exercise entitle the holder to subscribe for one fully-paid ordinary share upon exercise at the exercise price. The exercise price is determined in reference to the current market price at which the Group's shares traded on the Australian Securities Exchange during the five trading days immediately before they are granted plus a certain premium.

Options granted under the Employee Plan that have not vested at the time an option holder becomes ineligible (i.e. no longer an employee), are forfeited and not capable of exercise. When an option holder becomes ineligible and the options have already vested then the option holder has 3 months to exercise or they expire. Options must be exercised by the expiry dates or they lapse. There were no options granted during the year ended 31 December 2018.

Notes to the Financial Statements

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Note 16. Share based payments (continued)

At 31 December 2018 there were 3,225,000 employee options outstanding (2017: 5,110,000).

The following table summarises information about options outstanding at 31 December 2018:

31 December 2018

Tranche	Grant Date	Expiry Date	Exercise Price	Balance at start of period	Granted during the period	Forfeited during the period	Lapsed during the period	Balance at end of period	Vested and exercisable at end of period
1	1 Apr 2014	1 Apr 2018	$1.20	8,000	–	–	(8,000)	–	–
2	1 Apr 2014	1 Jan 2018	$1.30	16,000	–	–	(16,000)	–	–
3	1 Apr 2014	1 Oct 2018	$1.50	16,000	–	–	(16,000)	–	–
4	7 Nov 2014	1 Dec 2018	$1.20	60,000	–	–	(60,000)	–	–
5	7 Nov 2014	1 Jun 2018	$1.30	60,000	–	–	(60,000)	–	–
6	13 May 2016	13 May 2022	$0.30	2,000,000	–	–	(650,000)	1,350,000	1,350,000
7	13 May 2016	13 May 2022	$0.30	1,000,000	–	(362,500)	–	637,500	–
8	13 May 2016	13 May 2022	$0.40	1,000,000	–	(362,500)	–	637,500	–
9	13 May 2016	13 May 2022	$0.30	950,000	–	(350,000)	–	600,000	–
				5,110,000	–	(1,075,000)	(810,000)	3,225,000	1,350,000
Weighted average exercise price				0.35	–	0.33	0.49	0.32	0.30
Weighted average share price at date of exercise				–	–	–	–	–	–

31 December 2017

Tranche	Grant Date	Expiry Date	Exercise Price	Balance at start of period	Granted during the period	Forfeited during the period	Lapsed during the period	Balance at end of period	Vested and exercisable at end of period
1	1 Apr 2014	1 Apr 2018	$1.20	8,000	–	–		8,000	8,000
2	1 Apr 2014	1 Jan 2018	$1.30	16,000	–	–	–	16,000	16,000
3	1 Apr 2014	1 Oct 2018	$1.50	16,000	–	–		16,000	16,000
4	7 Nov 2014	1 Dec 2018	$1.20	60,000	–	–		60,000	60,000
5	7 Nov 2014	1 Jun 2018	$1.30	60,000	–	–		60,000	60,000
6	7 Nov 2014	1 Apr 2018	$1.20	6,000	–	–	(6,000)	–	–
7	7 Nov 2014	1 Jan 2018	$1.30	12,000	–	–	(12,000)	–	–
8	7 Nov 2014	1 Oct 2018	$1.50	12,000	–	–	(12,000)	–	–
10	13 May 2016	13 May 2022	$0.30	2,000,000	–	–	–	2,000,000	–
11	13 May 2016	13 May 2022	$0.30	1,000,000	–	–	–	1,000,000	–
12	13 May 2016	13 May 2022	$0.40	1,000,000	–	–	–	1,000,000	–
13	13 May 2016	13 May 2022	$0.30	950,000	–	–	–	950,000	–
				5,140,000	–		(30,000)	5,110,000	160,000
Weighted average exercise price				0.36	–	–	1.36	0.35	1.28
Weighted average share price at date of exercise				–	–	–	–	–	–

Notes to the Financial Statements

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Note 16. Share based payments (continued)

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.37 years (2017: 4.25 years).

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as $nil (2017: $223,764).

Note 17. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Trade creditors[1]	153,274	699,622
Other creditors[2]	590,549	657,802
	743,823	1,357,424

Australian dollar equivalents

Australian dollar equivalent of amounts payable in foreign currencies (US$) – 1,867 (2017: $20,570) and (CNY) - $454,126 (2017: $239,253).

Terms and conditions

Terms and conditions relating to the above financial instruments:

1 Trade creditors are non-interest bearing and are normally settled between 30 to 90 days
2 Other creditors are non-interest bearing and have a term between 30 to 90 days

Note 18. Provisions

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Employee benefits provision		
Long service leave	25,515	20,336
Annual leave	15,901	18,987
	41,416	39,323

Notes to the Financial Statements

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Note 19. Contributed equity

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
a) Issued and paid up capital	36,211,120	36,211,120

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

b) Movements in shares on issue

	31 December 2018		31 December 2017	
	Number of shares	Amount $	Number of Shares	Amount $
Beginning of the financial period	217,587,289	36,211,120	217,587,289	36,211,120
Transactions during the period:	–	–	–	–
End of the financial period	217,587,289	36,211,120	217,587,289	36,211,120

c) Share options

At 31 December 2018 there were a total of 3,225,000 (2017: 5,110,000) unissued ordinary shares in respect of which options were outstanding.

Refer to Note 16 for more details on unlisted options.

d) Capital risk management

The Group's objectives when managing capital as stated in the statement of financial position, are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Note 20. Accumulated losses and reserves

Accumulated losses

Movement in accumulated losses were as follows:

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
Beginning balance	(24,330,122)	(17,789,732)
Net loss	(4,149,786)	(6,540,390)
Ending balance	(28,479,908)	(24,330,122)

Notes to the Financial Statements

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Note 20. Accumulated losses and reserves (continued)

Reserves

Share based payment reserve

The share based payment reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration.

	Consolidated	
Share based payment reserve	**31 Dec 2018 $**	**31 Dec 2017 $**
Beginning balance	363,616	139,852
Cost of share based payments	(41,876)	223,764
Ending balance	321,740	363,616

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

	Consolidated	
Foreign currency translation reserve	**31 Dec 2018 $**	**31 Dec 2017 $**
Beginning balance	2,360,044	2,426,930
Foreign currency translation	861,809	(66,886)
Ending balance	3,221,853	2,360,044
Total Reserves	3,543,593	2,723,660

Note 21. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables.

The Group manages its exposure to key financial risks, including market risk (interest rate and currency risk) credit risk and liquidity risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Depending on cash flow, the Group may simply procure the required amount of foreign currency to mitigate the risk of future obligations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange rates and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses is undertaken to manage credit risk.

The Board reviews and agrees policies for managing each of these risks which are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

Fair Values

The fair values of financial assets and liabilities approximate their carrying value due to the short term nature. No financial assets or liabilities are readily traded on organised markets in standardised form.

Notes to the Financial Statements

continued

Note 21. Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Group. It arises from exposure to customers as well as through deposits with financial institutions.

The Group trades only with recognised, creditworthy third parties. Refer Note 11 for further details on trade and other receivables.

The Group does not have any material credit risk exposure to any single counterparty, except for its holdings of cash which is held with Westpac, Taiwan Cooperative Bank and Bank of Xiamen. Although there is a significant concentration of risk with these banks, the banks have strong credit ratings.

Maximum exposure to credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. There is no collateral held as security at 31 December 2018. Credit risk is reviewed regularly by the Board.

	Consolidated	
	31 Dec 2018 $	**31 Dec 2017 $**
Cash and cash equivalents	5,647,021	7,918,213
Trade receivables	598,121	1,156,238
Other receivables	21,963	13,529
	6,267,106	9,087,980

Market risk

Foreign currency risk

The Group is primarily exposed to changes in AUD/USD exchange rates. The Group's exposure to other foreign exchange movements is not material.

At 31 December 2018, the Group held US$ 1,328,853 (2017: US$ 2,407,933) in cash deposits. The Group had the following exposure to USD currency shown in AUD:

	Consolidated	
	31 Dec 2018 $	**31 Dec 2017 $**
Financial assets		
Cash and cash equivalents	1,893,429	3,098,147
Financial liabilities		
Trade and other payables	1,867	20,570
Net exposure	1,891,562	3,077,577

Notes to the Financial Statements

continued

Note 21. Financial risk management objectives and policies (continued)

At 31 December 2018, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post-tax loss and equity would have been affected as follows:

	Post-tax loss (Higher)/Lower		Equity Higher/(Lower)	
	31 Dec 2018 $	31 Dec 2017 $	31 Dec 2018 $	31 Dec 2017 $
Consolidated				
AUD/USD + 10% (2017: + 10%)	(133,454)	(240,261)	(133,454)	(240,261)
AUD/USD -10% (2017: - 10%)	133,454	240,261	133,454	240,261

The sensitivity analysis for the foreign currency exposure was determined based on historical movements over the past two years.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and short-term deposits. These deposits are held to fund the Group's ongoing and future development activities. Cash at bank of $1,945,181 earns interest at floating rates based on daily and "at call" bank deposit rates. Short term deposits of $4,789,610 are made for varying periods of between one month to one year, depending on the immediate cash requirements of the Group, and earn interest at the respective term deposit rates. Refer to Note 10 for details on the Group's cash and cash equivalents at 31 December 2018.

The following sensitivity analysis is based on the weighted average interest rates applicable to the Group's cash and short-term deposits in existence at the reporting date.

At 31 December 2018, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax loss and equity would have been affected as follows:

	Post-tax loss (Higher)/Lower		Equity Higher/(Lower)	
	31 Dec 2018 $	31 Dec 2017 $	31 Dec 2018 $	31 Dec 2017 $
Consolidated				
+ 2.0% / 200 basis points (2017: + 1.0%)	112,940	79,182	112,940	79,182
- 1.5% / 150 basis points (2017: - 1.5%)	(84,705)	(118,773)	(84,705)	(118,773)

The sensitivity in interest rates were determined based on historical movements over the past two years and management expectations of reasonable movements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of project research utilising an optimal combination of equity funding and available credit lines. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group has no financial liabilities due after twelve months.

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

The table below reflects all financial liabilities as of 31 December 2018. Financial liabilities are presented at their undiscounted cash flows. Cash flows for financial liabilities without fixed amounts or timing are based on the conditions existing at 31 December 2018. The Group had no derivative financial instruments at 31 December 2018.

Notes to the Financial Statements

continued

Note 21. Financial risk management objectives and policies (continued)

Remaining contractual maturities

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
1 year or less	743,823	1,357,424

Investments

Investments are made in accordance with a Board approved Investment Policy. Investments are typically in bank bills and held to maturity investments. Policy stipulates the type of investment able to be made. The objective of the policy is to maximise interest income within agreed upon creditworthiness criteria.

Maturity analysis of financial assets and liabilities based on management's expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and receivables are considered in the Group's overall liquidity risk.

	6 months or less $	6 to 12 months $	More than 12 months $	Total carrying amount as per the statement of financial position $
Financial instruments 31 December 2018				
Consolidated financial assets				
Cash and cash equivalents	1,894,691	–	–	1,894,691
Short term deposits	2,552,330	1,200,000	–	3,752,330
Trade and other receivables	620,084	–	–	620,084
	5,067,105	1,200,000	–	6,267,105
Consolidated financial liabilities				
Trade and other payables	743,823	–	–	743,823
	743,823	–	–	743,823
Net maturity	4,323,283	1,200,000	–	5,523,283

Notes to the Financial Statements
continued

Note 21. Financial risk management objectives and policies (continued)

	6 months or less $	6 to 12 months $	More than 12 months $	Total carrying amount as per the statement of financial position $
Financial instruments 31 December 2017				
Consolidated financial assets				
Cash and cash equivalents	4,801,409	–	–	4,801,409
Short term deposits	3,116,804	–	–	3,116,804
Trade and other receivables	1,169,767	–	–	1,169,767
	9,087,980	–	–	9,087,980
Consolidated financial liabilities				
Trade and other payables	1,357,424	–	–	1,357,424
	1,357,424	–	–	1,357,424
Net maturity	7,730,556	–	–	7,730,556

Undrawn borrowing facilities

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
The Company has the following undrawn borrowing facilities[1] of:	1,391,700	648,060

1 The facility ends 3 September 2019. It has varying interest rates ranging from 1.09% to 2.22% adjusted at regular intervals.

Note 22. Expenditure commitments

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
(a) Technical support commitments – sequencing machines [1]		
Significant technical support services contracted for at the end of the reporting period but not recognised as liabilities is as follows:		
Within one year	382,364	–
Later than one year but not later than five years	955,910	–
	1,338,274	–
(b) Non-cancellable operating lease commitments[2]		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	266,132	293,538
Later than one year but not later than five years	189,271	355,065
	455,403	648,603

1 The group has an on-going commitments for five (5) operating machines that are mainly used for generation sequencing services supporting the research and development activities of BioBay Medical Health.

2 The group leases various offices and warehouse under non-cancellable operating leases expiring within 4.75 years. The leases have varying terms and renewal rights. On renewal, the terms of the leases are renegotiated.

Notes to the Financial Statements

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Note 23. Employee benefits and superannuation commitments

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
The aggregate employee entitlement liability is comprised of:		
Accrued wages, salaries and on-costs[1]	485,557	322,933
Provisions (current)	15,901	18,987
Provisions (non-current)	25,514	20,336
	526,972	362,256

1 Includes accrued wages, salaries and on-costs of the disposal group, TBG Xiamen of $288,671.

Superannuation

The parent makes no superannuation contributions other than the statutory superannuation guarantee levy.

The Group contributed $19,033 on behalf of employees to superannuation funds (considered a related party) during the year ended 31 December 2018 (2017: $18,392).

Pension

On 1 July 2005, the subsidiaries of TBG Inc. established a defined contribution pension plan (the 'New Plan') under the Labor Pension Act (the 'Act'), covering all regular employees with Republic of China nationality. Under the New Plan, TBG Inc. and its subsidiaries make a contribution equal to 6% of the employee's monthly gross salaries to the employee's individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

The Group contributed $153,764 on behalf of employees to the pension fund (considered a related party) for the year ended 31 December 2018 (2017: $107,618).

Note 24. Contingent liabilities and assets

There are no contingent liabilities or contingent assets at 31 December 2018 that require disclosure in the financial report.

Note 25. Significant events after the reporting date

Board and management changes

On 1 February 2019, Mr. Eugene Cheng resigned as the Group Chief Operating Officer but will continue in his capacity as Non-executive director of the group. On the same date, Mr. Willy Hsu was appointed as the Chief Operating Officer of the group.

Update on the proposed acquisition of Zhangsha ZhangYe Medical Laboratory Corp

On 18 February 2019, TBG Xiamen received 5,000,000 RMB as partial payment from DongYuan in respect of the cash contribution described in Note 5 (i).

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

Notes to the Financial Statements

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Note 26. Auditors' remuneration

	Consolidated	
	31 Dec 2018 $	31 Dec 2017 $
(a) Audit services – BDO Audit Pty Ltd		
Audit or review of the Group's financial reports	155,500	105,000
(b) Audit services – PwC Taiwan		
Audit or review of TBG Inc.'s financial reports[1]	13,337	8,588
(c) Audit services – PwC Xiamen		
Audit or review of TBG Xiamen's financial reports[1]	16,893	16,435
	185,730	130,023
Non-audit services – BDO (QLD) Pty Ltd		
(d) Other non-audit services in relation to the entity[2]	14,360	34,707
	200,090	164,730

1 Pertains to audit services in relation to the financials of the accounting parent for TWD 300,000 (2017: TWD 200,000) and TBG Xiamen for CNY 83,333 (2017: CNY 83,333)

2 Non-audit services received from BDO for tax and other services

Note 27. Director and executive and related party disclosures

(a) Remuneration of directors and other key management personnel

	31 Dec 2018 $	31 Dec 2017 $
Short term benefits	482,883	460,323
Long term benefits	3,680	4,184
Post-employment benefits	58,120	12,093
Share-based payments	–	–
Termination payments	–	–
Total key management personnel compensation	544,683	476,600

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

	31 Dec 2018 $	31 Dec 2017 $
Revenues		
- Sale of goods	954,586	1,815,907
Expenses		
- Office lease	181,377	175,190
Receivables from related party		
- Trade receivables	319,450	587,854
Payables to related party		
- Trade and other payables	–	–

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

Notes to the Financial Statements

continued

Note 27. Director and executive and related party disclosures (continued)

(c) Subsidiaries

The consolidated financial statements include the financial statements of TBG Diagnostics Limited and the subsidiaries are listed in the following table:

		% Equity Interest	
Name	**Country of Incorporation**	**31 Dec 2018**	**31 Dec 2017**
TBG Inc.	Cayman Islands	100	100
TBG Biotechnology Corp.	Taiwan	100	100
TBG Biotechnology Corp. (Xiamen)	China	100	100
Texas Biogene Inc.	United States	100	100
Xia De (Xiamen) Biotechnology Co., Ltd	China	100	100
Xiamen BioBay Medical Health Ltd[1]	China	60	60

1 Xiamen BioBay Medical Health Ltd is a 60% owned subsidiary of the group established primarily to promote the development of diagnostic reagents and facilitate the process of industrialisation of relevant enterprise diagnostic reagents of TBG Biotechnology (Xiamen) Inc. Non-controlling interest is represented by Xiamen Haicang who owns 40% of the subscribed capital stock of Xiamen BioBay Medical Health Ltd.

(d) Non-controlling interest (NCI)

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.

Set out below is a summarised information of a subsidiary that has non-controlling interest that are material to the group. The amounts disclosed are before inter-company eliminations.

	Non-controlling interest	
	31 Dec 2018 $	**31 Dec 2017 $**
Summarised Statement of Financial Position		
Current assets	552,949	971,345
Current liabilities	546,729	5,038
Current net assets	6,220	966,307
Non-current assets	1,425,686	1,220
Non-current liabilities	-	-
Non-current net assets	1,425,686	1,220
Net assets	1,431,906	967,527
Accumulated NCI	574,337	389,078

Notes to the Financial Statements

continued

Note 27. Director and executive and related party disclosures (continued)

	Non-controlling interest	
	31 Dec 2018 $	**31 Dec 2017 $**
Summarised statement of comprehensive income		
Revenues	558,452	11
Profit for the period	(608,859)	(18,254)
Other comprehensive income	35,270	5,005
Total comprehensive income	(573,589)	13,249
Profit allocated to NCI[1]	(243,544)	(7,302)
Dividends paid to NCI	–	–

1 40% non-controlling interest allocated to Xiamen Haicang shareholders

	Non-controlling interest	
	31 Dec 2018 $	**31 Dec 2017 $**
Summarised statement of cash flows		
Cash flows from operating activities	(558,028)	(171,943)
Cash flows from investing activities	(1,198,088)	(1,220)
Cash flows from financing activities	1,032,963	990,786
Foreign exchange differences	40,276	(5,005)
Net increase (decrease) in cash and cash equivalents	(682,877)	812,618

Directors' Declaration

The directors of the company declare that:

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
   a. comply with Accounting Standards and the *Corporations Regulations 2001*; and
   b. give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the period ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in paragraphs pages 26 to 33 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2018, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

On behalf of the directors

Jitto Arulampalam
Executive Chairman
Date: 21 March 2019

Eugene Cheng
Non-Executive Director
Date: 21 March 2019

Independent Auditor's Report

BDO

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INDEPENDENT AUDITOR'S REPORT

To the members of TBG Diagnostics Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of TBG Diagnostics Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

continued

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Existence and Valuation of Plant and Equipment - Xiamen	***How the matter was addressed in our audit***
Two of the Group's subsidiaries have operations located in Xiamen, China, and have capitalised significant costs in developing the property. Per the original agreement with the local government, the subsidiary was able to occupy the facility rent free up to 30 November 2016 which was then extended to 30 November 2018. Existence and Valuation of Plant and Equipment in the subsidiaries located in Xiamen was considered a key audit matter due to: • The quantum of the plant and equipment recognised in Xiamen; • The expiry of the group's lease agreement with the property owner during the period; and • The importance of the facility to the Group's business plans. This balance was subsequently classified as part of the disposal group that was held for sale as at 31 December 2018. These conditions required additional audit effort to gather audit evidence over the existence and valuation of the plant and equipment recognised in Xiamen.	Our procedures included, amongst others: • Performing asset sighting of the leasehold improvements and plant and equipment in Xiamen to ensure items recorded exists; • Critically assessing the condition of the leasehold improvements and plant and equipment in Xiamen to ensure no impairment indicators exist; • Testing plant and equipment additions during the year; • Evaluating the depreciation of property, plant and equipment to determine if the rates used are reasonable given the lease expiry and renewals in place; • Obtaining signed documentation from the local government to confirm the extension of the Group's lease of the property; and • Critically assessing the Group's disclosures of the quantitative and qualitative considerations in relation to the Xiamen plant and equipment by comparing these disclosures to our understanding of the matter.

Independent Auditor's Report

continued

Disposal of the TBG Xiamen Group	*How the matter was addressed in our audit*
During the period, the Group entered into an agreement to sell down its interest in the TBG Xiamen Group ("TBG Xiamen"), with an anticipated settlement date in 2019. The transaction is expected to result in a loss of control of TBG Xiamen and as a result the Group has disclosed TBG Xiamen as a discontinued operation as it represents a separate major line of business and geographical area of operations. The treatment of TBG Xiamen in the 31 December 2018 financial statements was considered a key audit matter due to: • The judgement involved in determining whether TBG Xiamen met the requirements to be classified as Held for Sale as at 31 December 2018; • The significance of this transaction to the Group; and • The level of disclosure required in the 31 December 2018 financial statements to present the discontinued operation.	Our audit procedures included, amongst others: • Examining the underlying documentation related to the transaction to consider if the classification as held for sale and a discontinued operation is appropriate and in line with the criteria in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*; • Testing the schedules supporting the assets, liabilities and revenue and expenses allocated to the discontinued operation including the impact on comparative results; and • Critically assessing the disclosure requirements of the discontinued operation and the impact on other disclosures within the financial statements and comparing these disclosures to our understanding of the matter.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the Directors' Report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

continued

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Independent Auditor's Report

continued

BDO

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 33 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration of TBG Diagnostics Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

BDO

T Mann

T R Mann

Director

Brisbane, 21 March 2019

ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd not shown elsewhere in this report is as follows. The information is current as at 20 March 2018.

Substantial shareholders

The number of shares held by substantial shareholders listed in the Company's ASX register as at 20 March 2019 were:

	Number of ordinary shares held	Percentage
MEDIGEN BIOTECHNOLOGY CORPORATION	105,915,938	48.68
ETERNAL MATERIALS CO LTD	40,200,000	18.48
CITICORP NOMINEES PTY LIMITED	32,095,699	14.75

Class of equities and voting rights

The voting rights attached to all ordinary shares in the Company as set out in the Company's constitution are:

a) On a show of hands every Member has one vote;
b) On a poll, every Member has one vote for each fully paid share

Under the terms of the Company's unlisted options there are no voting rights attached to options.

Distribution of equity securities

Category (size of holding)	No. of ordinary shareholders	No. of Unquoted employee option holders
1 – 1,000	934	-
1,001 – 5,000	675	-
5,001 – 10,000	149	-
10,001 – 100,000	186	-
100,001 and over	57	10
Total	**2,001**	**10**
Shareholders holding less than a marketable parcel of shares	1,786	N/A

ASX Additional Information

continued

Names of the twenty largest holders of quoted securities are:

	Listed Ordinary Shares	
	No.	**Percent**
MEDIGEN BIOTECHNOLOGY CORPORATION	105,915,938	48.68
ETERNAL MATERIALS CO LTD	40,200,000	18.48
CITICORP NOMINEES PTY LIMITED	32,095,699	14.75
MISS FU MEI WANG	2,157,128	0.99
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,856,960	0.85
MS WEN-MIN WANG	1,576,289	0.72
MR YUNG-FONG LU	1,571,020	0.72
US CONTROL ACCOUNT	1,464,132	0.67
MRS LEE LI HSUEH YANG	1,322,558	0.61
YING CHENG	1,031,000	0.47
MR HSIEN-JUNG YANG + MRS MA SHU-HWA YANG <THE LAMBERT SUPER FUND A/C>	1,001,000	0.46
CHEMBANK PTY LIMITED <PHILANDRON ACCOUNT>	1,000,000	0.46
CHI-LIANG YANG	945,984	0.43
WEI CHENG	931,000	0.43
BNP PARIBAS NOMS PTY LTD <DRP>	846,820	0.39
MIN-HUA YEH	844,894	0.39
MS YI-HUI SHEN	819,000	0.38
MR QIWEI GUO	770,000	0.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	767,968	0.35
MR. I-FAN CHIU	658,500	0.30
TOTAL	**197,775,890**	**90.89**

Unquoted Equity Securities:

Number	No. on issue	No. of holders
Options issued under the Executive Directors and Employees Option Incentive Plan	3,225,000	10

Corporate Directory

Directors
J. Arulampalam (Chairman)
S. Chang
E. Cheng
E. Lee
C. K. Wang

Company Secretary
J. Stedwell

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