

TBG Diagnostics Limited
ABN 82 010 975 612
Corporate Governance Statement 2017

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 16 March 2018.

ASX Corporate Governance Principles and Recommendations

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 - Functions of the Board and Management

The Board is 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 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.

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 2017, 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 conducted during the reporting period.

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

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.

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 four (4) members, two (2) Non-Executive Directors and two (2) Executive Directors. The Chair is Non-Independent Non-Executive Director, Edward Chang, who is considered the most appropriate Non-Executive Director to Chair the ARC despite his non-independent status. The Company is not currently compliant with this Recommendation on the structure of ARC (that the majority of members are independent and is chaired by an independent director - see Recommendation 2.4 for discussion on 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.

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 2017 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 2016 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.

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 2017 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

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 during the financial year 2017.

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 met once (1 time) during the financial year ended 31 December 2017 and the members' attendance is set out in the Directors' Report of the Annual Report.

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.