

ParagonCare

Appendix 4D

Name of Entity:	PARAGON CARE LIMITED
ABN:	76 064 551 426
Reporting Period:	Financial Half Year ended 31 Dec 2016
Previous corresponding Period:	Financial Half Year ended 31 Dec 2015

Results for Announcement to the Market

	Half Year End 31st Dec 2016	Half Year End 31st Dec 2015	Variance
	\$	\$	%
Revenue from continuing operations	54,988,220	38,366,806	43%
Other Revenue	48,118	58,684	(18)%
Profit after tax from continuing operations	3,739,077	2,640,993	42%
<hr/>			
Earning per share (cents)	2.29	2.38	(4)%
Net Tangible assets per share (cents)	(8.6)	(6.0)	N/A
* Weighted Average Number of issued shares	163,491,254	110,736,988	

Dividends

The company has declared a fully franked interim dividend of 1.1 cents per ordinary share, which represents 48% payout of NPAT which is at the top end of the range of 40% to 50% in the company's dividend payment policy, to be paid on 6th April 2017 in respect of the financial half year ended 31 December 2016. The dividend will be paid to all shareholders on the register of members as at the Record Date of 10th March 2017.

A final dividend for the year ended 30 June 2016 of 1.4 cents per share fully franked was paid in October 2016. The record date was 16th September 2016 with the payment date of 6th October 2016.

Dividend Reinvestment Plan

Paragon Care operates a dividend reinvestment plan (DRP) that enables shareholders to elect to reinvest all, or up to a portion of, their dividends into additional shares in Paragon. The DRP will be available for the final dividend. Shares will be issued at a discount of 2.5% to the volume weighted average market price of shares sold on the ASX over the 5 trading days immediately preceding the record date.

ParagonCare

Name of Entity: PARAGON CARE LIMITED

ABN: 76 064 551 426

SUMMARY RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	31st Dec 2016	31st Dec 2015	
	\$	\$	%
Revenue from continuing operations	54,988,220	38,366,806	43%
Cost of Sales	(33,661,234)	(23,521,680)	43%
Gross Profit	21,326,985	14,845,126	44%
Gross Profit Margin %	39%	39%	
Other Income	48,118	58,684	(18)%
Operating Expenses	(14,684,702)	(10,317,565)	42%
Earnings before interest, tax and depreciation (EBITDA)	6,690,401	4,586,245	46%
Depreciation and Amortisation	(507,234)	(321,413)	58%
Earnings before interest and tax (EBIT)	6,183,167	4,264,832	45%
Interest Expense	(849,219)	(540,964)	57%
Profit Before Tax	5,333,949	3,723,868	43%
Tax Expense	(1,594,871)	(1,082,875)	267%
Profit/loss after tax	3,739,077	2,640,993	42%

Consolidated Financial Statements

This report is based on the attached financial report which has been independently reviewed. The attached financial report is not subject to a qualified review statement.

ParagonCare

PARAGON CARE LIMITED
AND CONTROLLED ENTITIES

ABN: 76 064 551 426

**FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2016**

Directors' Report
For the Half-Year Ended 31 December 2016

Your directors present their report on the consolidated entity consisting of Paragon Care Limited and the entities it controlled at the end of and during the half year ended 31 December 2016.

DIRECTORS

The names of the Paragon Care Limited (“Paragon Care”) Directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Mr Shane Tanner (Non-executive Chairman)	Mr Michael Newton (Non-executive Director)
Mr Mark Simari (Managing Director)	Mr Brett Cheong (Executive Director)
Mr Michael Rice (Alternate Director for Mr Mark Simari)	Mr Geoff Sam AM (Non-executive Director)

PRINCIPAL ACTIVITY

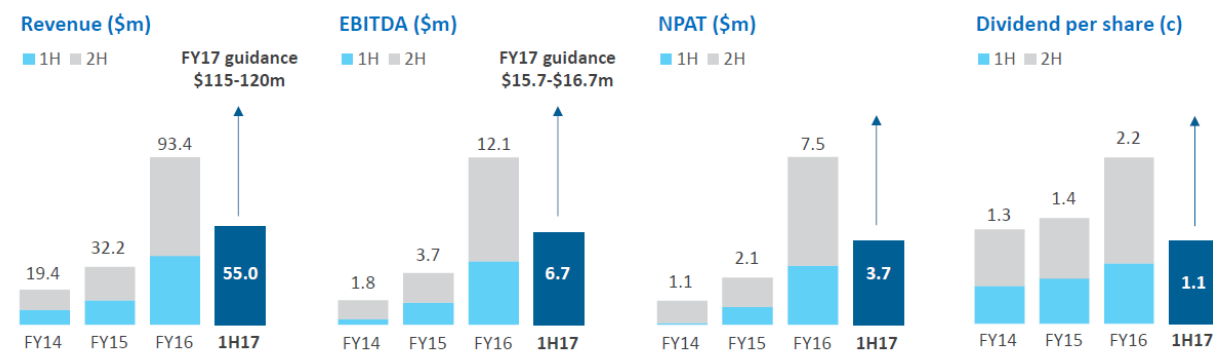
The principal continuing activity of the consolidated entity is the supply of durable medical equipment, devices and consumable medical products to hospitals, medical centres and aged care facilities.

Revenue and Earnings

The Company’s revenue was \$55m for the six months ended 31 December 2016, up 43% over the prior corresponding period. EBITDA for the half year was \$6.7m, representing a 46% increase over the prior corresponding period and NPAT was \$3.7m, a 42% increase over the prior corresponding period.

This result demonstrates the underlying strength in the business with a significant increase in revenue and earnings driven by good underlying performance combined with a full half year of earnings from the Meditron, Designs For Vision and Western Biomedical businesses acquired in October 2015.

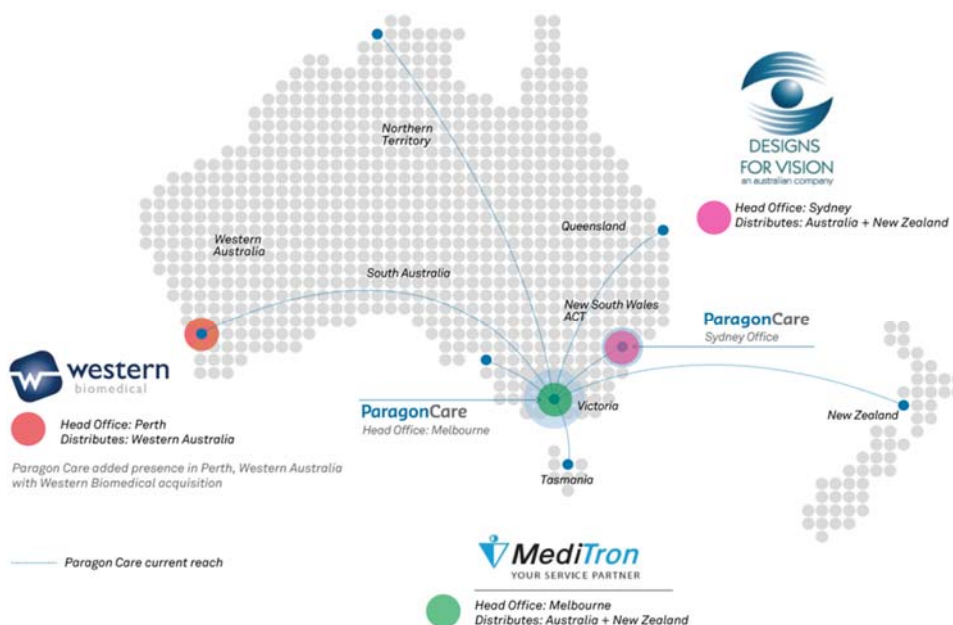
The first half result is expected to deliver even stronger full year earnings with the second half of the financial year expected to be stronger than first half given the company’s strong backorder position underpinned by the historical trends and the seasonal nature of hospital procurement.



Directors' Report
For the Half-Year Ended 31 December 2016

The fully franked dividend of 1.1 cent declared by the company represents a 48% payout of NPAT, which is towards the top end of the target payout ratio of 40-50%. The half year dividend is up 38% over the prior corresponding period.

Paragon's strategy of consolidating all business activities into central distribution centres continues to drive synergies. National coverage through the network of office and warehouse complexes in Scoresby in Victoria, in Chatswood in New South Wales, and in Osborne Park in Western Australia.



Paragon Care continues to provide significant earnings upside through a track record of successful acquisitions. This half year Paragon has been in a position to fund acquisition opportunities internally through operating cash flows, subject to size, which continue to deliver strong growth in Earnings Per Share and Dividend Per Share.

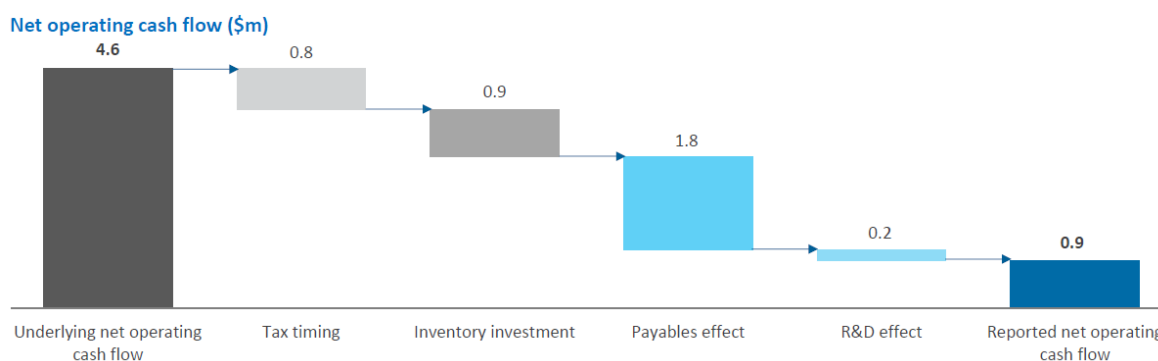
The recent acquisitions of Electro Medical Group and MIDAS Software Solutions were funded internally through strong operational cash flows and scrip respectively. These business acquisitions continue to extend the Groups product and service offerings to customers.

The MIDAS platform provides a world first by interpreting the measurements and observations from the patient imaging study to provide fully customised, provisional diagnostic reports in just a few seconds, complete with key images, worksheets, diagrams, graphs, and charts. The MIDAS target market is highly complementary to PGC's existing customer base and sales channels. The MIDAS platform represents a valuable addition to the Company's medical device and point of care technology equipment and opens up new gateways of opportunity for the wider group.

Directors' Report
For the Half-Year Ended 31 December 2016

Electro Medical Group specialises in providing reliable and high-quality service support and technology management to the Medical, Scientific, Aged Care and Allied Health industry in Australia and New Zealand. The acquisition allows Paragon to capitalise on the growing demand for the provision of preventative service and maintenance within the health & aged care sector. The initiative will look to generate significant sales synergies over coming years when combined with Paragon's existing service and maintenance business.

The first half saw underlying net operating cash flow of \$4.6m. Several one-off timing and working capital factors resulted in a lower reported net operating cash flow of \$0.9m. The factors impacting cash flows were: the company switched from quarterly to monthly company tax payments; early payments to suppliers to obtain payment discounts; R&D expenditure of a research nature relating to products expected to be released in FY18 and increased inventory holding to meet strong demand in growth portfolios in the second half. Paragon expects reported operating cash flow will be stronger in the second half.



The company has achieved EBITDA growth of 14% on a like for like basis over the prior corresponding period which includes a full half year contribution from Western Biomedical, Designs for Vision and Meditron. The Company looks forward to delivering continued growth for the remainder of the financial year. The health care industry continues to provide a lucrative market within which the Company can achieve strong growth in earnings and dividends.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Signed in accordance with a resolution of the Directors.

S.F. Tanner
Chairman
9 February 2017

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Paragon Care Limited for the half year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

RSM AUSTRALIA PARTNERS



P A RANSOM

Partner

Melbourne, VIC
9 February 2017

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Half-Year Ended 31 December 2016

	31-Dec 2016	31-Dec 2015
Revenue	54,988,220	38,366,806
Cost of sales	(33,661,234)	(23,521,680)
Gross profit	<u>21,326,985</u>	<u>14,845,126</u>
Other revenue	48,118	58,684
Operating costs	(3,996,525)	(2,640,044)
Corporate costs	(119,118)	(341,119)
Finance costs	(849,219)	(540,964)
Selling and distribution	(717,233)	(528,331)
Employee and consultants costs (incl. directors fees and remuneration)	(10,359,060)	(7,129,484)
Profit/(loss) before tax	<u>5,333,949</u>	<u>3,723,868</u>
Income tax expense	1,594,871	1,082,875
Profit for the period	<u><u>3,739,077</u></u>	<u><u>2,640,993</u></u>
Other comprehensive income		
Gain (loss) on cash flow hedges	371,601	(304,102)
Gain (loss) on currency translation reserve	6,707	22,283
Other comprehensive income for the period, net of tax	<u>378,308</u>	<u>(281,819)</u>
Total comprehensive income for the period	<u><u>4,117,385</u></u>	<u><u>2,359,174</u></u>
Profit for the period attributable to:		
Owners of the parent	3,739,077	2,640,993
	<u><u>3,739,077</u></u>	<u><u>2,640,993</u></u>
Total comprehensive income for the period attributable to:		
Owners of the parent	4,117,385	2,359,174
	<u><u>4,117,385</u></u>	<u><u>2,359,174</u></u>
Earnings per share		
Basic (cents per share)	2.29	2.38
Diluted (cents per share)	2.29	2.38

Note: EPS calculated using the weighted average shares on issue during the period of 163,491,254 shares.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes which form an integral part of these financial statements.

Condensed Consolidated Statement of Financial Position
As at 31 December 2016

	31-Dec 2016	30-Jun 2016
ASSETS		
Current assets		
Cash and cash equivalents	11,658,253	19,116,930
Inventories	21,932,090	22,615,886
Trade and other receivables	18,691,695	19,400,652
Current tax refundable	104,484	-
Other financial assets	46,876	-
Total current assets	<u>52,433,398</u>	<u>61,133,468</u>
Non-current assets		
Plant and equipment	3,327,877	2,982,624
Deferred tax assets	2,276,023	2,331,507
Intangibles	92,193,434	81,038,905
Other receivables	913,825	302,979
Total non-current assets	<u>98,711,158</u>	<u>86,656,015</u>
TOTAL ASSETS	<u>151,144,555</u>	<u>147,789,483</u>
LIABILITIES		
Current liabilities		
Trade and other payables	19,754,190	22,664,613
Vendor Conditional Payables	9,852,454	800,000
Interest bearing liability	7,185,748	7,562,765
Other financial liabilities	-	322,063
Current tax liabilities	-	568,431
Provisions	2,189,319	1,823,933
Total current liabilities	<u>38,981,711</u>	<u>33,741,805</u>
Non-current liabilities		
Vendor Conditional Payables	3,031,489	9,852,454
Other payables	648,957	416,797
Interest bearing liability	30,140,463	30,591,710
Provisions	332,729	416,483
Total non-current liabilities	<u>34,153,638</u>	<u>41,277,444</u>
TOTAL LIABILITIES	<u>73,135,349</u>	<u>75,019,249</u>
NET ASSETS	<u>78,009,206</u>	<u>72,770,234</u>
Equity		
Contributed equity	74,044,573	70,636,055
Reserves	91,762	(286,547)
Accumulated losses	3,872,871	2,420,726
TOTAL EQUITY	<u>78,009,206</u>	<u>72,770,234</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes which form an integral part of these financial statements.

Paragon Care Limited
ABN: 76 064 551 426

Condensed Consolidated Statement of Changes in Equity
For the Half-Year Ended 31 December 2016

	Share capital	Currency Translation Reserve	Currency Hedge Reserve	Accumulated losses	Total equity
As at 1 July 2015	23,611,121	-	264,056	(3,291,595)	20,583,582
Profit / (Loss) for half year	-	-	-	2,640,993	2,640,993
Gain / (loss) on cashflow hedge	-	-	(304,102)	-	(304,102)
Gain / (loss) on currency translation	-	22,283	-	-	22,283
Total comprehensive income for the half year	-	22,283	(304,102)	2,640,993	2,359,174
Dividends Paid	-	-	-	(540,463)	(540,463)
Issue of share capital net of transaction costs	46,909,662	-	-	-	46,909,662
As at 31 December 2015	70,520,783	22,283	(40,046)	(1,191,065)	69,311,955
As at 1 July 2016	70,636,055	38,871	(325,417)	2,420,726	72,770,234
Profit / (Loss) for half year	-	-	-	3,739,077	3,739,077
Gain / (loss) on cashflow hedge	-	-	371,601	-	371,601
Gain / (loss) on currency translation	-	6,707	-	-	6,707
Total comprehensive income for the half year	-	6,707	371,601	3,739,077	4,117,385
Dividends Paid	-	-	-	(2,286,932)	(2,286,932)
Issue of share capital net of transaction costs	3,408,518	-	-	-	3,408,518
As at 31 December 2016	74,044,573	45,578	46,184	3,872,871	78,009,206

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes which form an integral part of these financial statements.

Condensed Consolidated Statement of Cash Flows
For the Half-Year Ended 31 December 2016

	31-Dec 2016	31-Dec 2015
Cash flows from operating activities		
Receipts from customers	56,382,149	35,372,474
Payments to suppliers and employees	(52,274,512)	(33,535,385)
Interest and other items of similar nature paid	(849,219)	(540,964)
Interest received	28,257	51,087
Income tax paid	(2,359,432)	(1,092,485)
Net cash provided by / (used in) operating activities	<u>927,244</u>	<u>254,727</u>
Cash flows from investing activities		
Payment for purchase of business, net of cash acquired	(2,853,347)	(55,213,428)
Payment for advance of loan	(500,000)	-
Payment for plant and equipment and intangible assets	(2,223,788)	(1,395,116)
Proceeds from sale of plant and equipment	42,905	155,206
Net cash provided by / (used in) investing activities	<u>(5,534,230)</u>	<u>(56,453,338)</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	42,661,932
Proceeds from borrowings	621,737	25,472,859
Repayment of borrowings	(1,450,000)	(77,106)
Dividends paid	(2,011,890)	(540,463)
Share issue expenses	(11,537)	(2,785,949)
Net cash provided by / (used in) financing activities	<u>(2,851,691)</u>	<u>64,731,273</u>
Net increase / (decrease) in cash and cash equivalents	<u>(7,458,677)</u>	<u>8,532,662</u>
Cash and cash equivalents at the beginning of the financial year	<u>19,116,930</u>	<u>3,755,847</u>
Cash and cash equivalents at the end of the financial period	<u>11,658,253</u>	<u>12,288,509</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes which form an integral part of these financial statements.

Paragon Care Limited
ABN: 76 064 551 426

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

Note 1 Summary of significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report for the year ended 30 June 2016.

Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2016 annual financial report for the financial year ended 30 June 2016.

Note 2 Segment information

Management has determined the operating segments based on the reports reviewed by the board of directors. The board of directors considers the business from both a product and a geographic perspective and has determined the Group operates in only one reportable segment – Medical Equipment. The Medical Equipment segment provides durable medical products, devices and consumable medical products to the hospitals, medical centres and aged care facilities.

Note 3 Critical accounting estimate and assumptions

The Group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial years, are discussed below:

Impairment of goodwill

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

Note 3 Critical accounting estimate and assumptions (cont.)

Impairment of goodwill

With respect to cash flow projections for the Group's businesses based in Australia, growth rates of 5% have been factored into valuation models for the next five years. This is on the basis of management's expectations of increased government expenditure in both the acute and aged care market sectors, much of which has already been publicly announced, and their belief in the Group's continued ability to capture a significant share of this expenditure. The rate used incorporate allowance for inflation.

Pre-tax discount rates of 11.5% have been used in the model. No impairment has been recognised in respect of goodwill at the end of the reporting period.

Note 4 Contingent liabilities

Since the last annual reporting date there has been no material change of any contingent liabilities or contingent assets.

Note 5 Subsequent events

The company has declared an interim dividend of 1.1 cents per ordinary share, to be paid on 6th April 2017 in respect of the financial half year ended 31 December 2016. The dividend will be paid to all shareholders on the register of members as at the Record Date of 10th March 2016 and represents a 38% increase over prior corresponding period.

No other matters or circumstances have arisen since the half year ended 31 December 2016 that significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

NOTE 6 Contributed Equity

Movements in ordinary share capital in the Company over the half year were as follows:

Date		Shares	\$
30 Jun 16	Balance	159,934,518	70,636,054
18 Jul 16	Issue of shares in settlement of the Meditron vendor earn out payment at a price of \$0.707 per share	707,214	500,000
25 Jul 16	Issue of shares as part consideration for acquisition of MIDAS software solutions business at issue price of \$0.703 per share.	2,709,046	1,904,459
06 Oct 16	Issue of shares pursuant to the company's dividend re-investment plan price of \$0.80 per share	343,802	275,042
07 Oct 16	Issue of shares as part consideration for acquisition of Electro Medical Group business at issue price of \$0.8203 per share.	902,784	740,554
31 Dec 16	Accumulated share issue costs incurred during the half year (net of tax)		(11,538)
31 Dec 16	Closing Balance	164,597,364	74,044,571

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

NOTE 7 Business Combinations

Summary of business combinations during the period:

	MIDAS Software Solutions \$	Electro Medical Group \$	Total \$
Purchase Consideration – cash	-	3,440,937	3,440,937
Purchase Consideration - contingent	1,000,000	2,031,489	3,031,489
Purchase Consideration - shares	1,904,459	740,553	2,645,012
	<u>2,904,459</u>	<u>6,212,979</u>	<u>9,117,438</u>
Net Working Capital	(30,000)	417,298	387,298
Plant and Equipment	5,000	173,542	178,542
Identifiable Intangible - Software	952,230	-	952,230
Employee Entitlements	(66,092)	(199,748)	(265,840)
Deferred Tax Asset	19,828	59,924	79,752
Goodwill on consolidation	2,023,494	5,761,964	7,785,457
	<u>2,904,459</u>	<u>6,212,979</u>	<u>9,117,438</u>
Reconciliation to Cash flow:			
Consideration of Purchase	2,904,459	6,212,979	9,117,438
Conditional Payment	(1,000,000)	(2,031,489)	(3,031,489)
Equity Funding	(1,904,459)	(740,553)	(2,645,012)
Net Outflow of cash	<u>-</u>	<u>3,440,937</u>	<u>3,440,937</u>

MIDAS Software Solutions

On 25th of July 2016 the Company acquired 100% of the shares in MIDAS Software Solutions Pty Ltd and the business and assets of Spintech Oceania Pty Ltd. MIDAS is a world first, fully customisable interpretive reporting software platform for a wide range of diagnostic medical examinations. It produces a provisional report complete with key images, worksheets, diagrams, graphs, and charts within a few seconds by interpreting the measurements and observations from the study data. This innovative, cloud based web platform significantly boosts productivity in practice workflow and can connect with any system across any network globally.

Purchase consideration

	\$
Contingent Consideration (a)	1,000,000
Ordinary shares in PGC 2,709,046 @ \$0.703	1,904,459
	<u>2,904,459</u>

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

Note 7 Business Combinations (cont.)

MIDAS Software Solutions (cont.)

Fair value and carrying value of net assets acquired

Net working capital	(30,000)
Plant and equipment	5,000
Identifiable Intangible - Software	952,230
Employee Entitlements	(66,092)
Deferred Tax Asset	19,828
Goodwill on consolidation	2,023,494
	<u>2,904,459</u>

Reconciliation to cashflow

Consideration of purchase	2,904,459
Conditional Payment Due August 2018	(1,000,000)
Equity Funding	<u>(1,904,459)</u>
Net outflow of cash	<u>-</u>

(a) The vendors are entitled to a payment of 4 times the EBITDA growth between FY16 and FY17. The payment is uncapped, its likely range is anticipated to be between \$0 and \$2 million.

Impact of acquisition on the results of the Group

As the acquisition of MIDAS Software Solutions occurred on 25 July 2016 the revenue and profit of the Group for the half year ended 31 December 2016 reflects trading for 25 July to 31 December 2016 of the acquired business.

Provisional amounts

As the acquisition has only recently occurred the numbers presented for Net working capital, Plant and equipment, Employee Entitlements, Deferred Tax Asset and Goodwill on consolidation, including the estimate of vendor earnout are presented as provisional amounts pending the completion of the fair valuation of assets acquired and forecasting of earnings for Financial Year 2018.

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

Note 7 Business Combinations (cont.)

Electro Medical Group Pty Ltd

On 7 October 2016 the Company acquired 100% of the shares in Electro Medical Group Pty Ltd. Electro Medical Group specialises in providing reliable and high-quality service support and technology management to the Medical, Scientific, Aged Care and Allied Health industry of Australia and New Zealand. EMG has established agreements in place with a number of major healthcare providers throughout the region.

Purchase consideration

	\$
Cash and Cash Equivalents	3,440,937
Contingent Consideration (a)	2,031,489
Ordinary share in PGC 902,784 @ \$0.8203	740,553
	<u>6,212,979</u>

Fair value and carrying value of net assets acquired

	\$
Net working capital	417,297
Plant and equipment	173,542
Employee Entitlements	(199,748)
Deferred Tax Asset	59,924
Goodwill on consolidation	5,761,964
	<u>6,212,979</u>

Reconciliation to cashflow

	\$
Consideration of purchase	6,212,979
Conditional Payment Due October 2018	(2,031,489)
Equity Funding	(740,553)
Net outflow of cash	<u>3,440,937</u>

(a) The vendors are entitled to a payment of 3 times the EBITDA growth between FY16 and FY18. The payment is uncapped; its likely range is anticipated to be between \$1.5 million and \$2.6 million.

Impact of acquisition on the results of the Group

As the acquisition of Electro Medical Group occurred on 7 October 2016 the revenue and profit of the Group for the half year ended 31 December 2016 reflects trading for 7 October to 31 December 2016 of the acquired business.

Paragon Care Limited
ABN: 76 064 551 426

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

Note 7 Business Combinations (cont.)

Electro Medical Group Pty Ltd (cont.)

Provisional amounts

As the acquisition has only recently occurred the numbers presented for Net working capital, Plant and equipment, Employee Entitlements, Deferred Tax Asset and Goodwill on consolidation, including the estimate of vendor earnout are presented as provisional amounts pending the completion of the fair valuation of assets acquired and forecasting of earnings for Financial Year 2018.

Prior Period Business Combination Provisional Amounts Finalised

During the half year ended 31 December 2016, the numbers presented for Net working capital, Plant and equipment, Employee Entitlements, Deferred Tax Asset and Goodwill on consolidation, including the estimate of vendor earn out presented as provisional amounts for the business combinations of Meditron Pty Ltd, Western Biomedical Pty Ltd and Designs For Vision Pty Ltd as at 30 June 2016 were finalised following completion of the fair valuation of assets acquired and forecasting of earnings for earn out purposes.

In July the Purchase Consideration – contingent was paid to the vendor of Meditron in a combination of cash and shares. Rental equipment with a written down value of \$348,575 was reclassified from Working Capital to Plant and Equipment.

In September a review of the acquisition of Western Biomedical was completed. Inventory was reduced by \$251,000 to reflect fair value at acquisition; Goodwill has been adjusted to reflect this.

In September, negotiations around the assets acquired at acquisition were settled with the vendors of Designs For Vision repaying \$462,000 of the Purchase Consideration – cash and the Working Capital acquired was reduced by \$1,346,062 to reflect fair value at acquisition after completing a review inventory at acquisition; Goodwill has been adjusted to reflect this.

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2016

Summary of business combinations finalised numbers from the prior period business combinations:

	Western Biomedical	Meditron	Designs for Vision	Total
	\$	\$	\$	\$
Purchase Consideration - cash	29,278,554	6,189,164	21,436,440	56,904,158
Purchase Consideration - contingent	1,533,976	800,000	8,318,478	10,652,454
Purchase Consideration – shares	-	1,000,000	4,000,000	5,000,000
	<u>30,812,530</u>	<u>7,989,164</u>	<u>33,754,918</u>	<u>72,556,612</u>
Net Working Capital	1,496,765	2,774,216	5,690,078	9,961,059
Plant and Equipment	404,935	524,605	128,433	1,057,973
Employee Entitlements	(226,698)	(394,216)	(737,401)	(1,358,315)
Deferred Tax Asset	77,459	118,265	221,220	416,944
Goodwill on consolidation	29,060,069	4,966,294	28,452,588	62,478,950
	<u>30,812,530</u>	<u>7,989,164</u>	<u>33,754,918</u>	<u>72,556,612</u>
Reconciliation to Cash flow:				
Consideration of Purchase	30,812,530	7,989,164	33,754,918	72,556,612
Conditional Payment	(1,533,976)	(800,000)	(8,318,478)	(10,652,454)
Equity Funding	-	(1,000,000)	(4,000,000)	(5,000,000)
Net Outflow of cash	<u>29,278,554</u>	<u>6,189,164</u>	<u>21,436,440</u>	<u>56,904,158</u>

Paragon Care Limited
ABN: 76 064 551 426

Directors' Declaration
For the Half-Year Ended 31 December 2016

The Directors declare that:

1. The financial statements and notes set out on pages 8 to 19 are in accordance with the *Corporations Act 2001*, including;

(a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance, as represented by the results of its operations, and its cash flows, for the half-year ended on that date; and

2. There are reasonable grounds to believe that Paragon Care Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with the resolution of the directors.

A handwritten signature in blue ink, appearing to read 'S.F. Tanner', is positioned above the printed name and title.

S.F. Tanner
Chairman
9 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
PARAGON CARE LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Paragon Care Limited which comprises the condensed statement of financial position as at 31 December 2016, the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Paragon Care Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM

RSM AUSTRALIA PARTNERS



P A RANSOM
Partner

Melbourne, VIC
9 February 2017