

# Paragon Care Limited

ABN 76 064 551 426

Annual Report - 30 June 2019

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|                                |   |
|--------------------------------|---|
| Directors                      | Shane Tanner - Chairman<br>Andrew Just<br>Michael Newton<br>Geoffrey Sam OAM<br>Brent Stewart<br>Bruce Bian   |
| Company secretary              | Melanie Leydin  |
| Registered office              | 50-54 Clayton Road<br>Clayton VIC 3168<br>Telephone: 1300 369 559<br>Telephone: (03) 8833 7800<br>Facsimile: (03) 8833 7890   |
| Share register                 | Link Market Services Limited<br>Level 13, Tower 4<br>Melbourne VIC 3000<br>Telephone: 1300 554 474<br>Facsimile: (02) 9287 303<br>Website: <a href="http://www.linkmarketservices.com.au">www.linkmarketservices.com.au</a>   |
| Auditor                        | RSM Australia Partners<br>Level 21, 55 Collins Street<br>Melbourne VIC 3000<br>Website: <a href="http://www.rsmi.com.au">www.rsmi.com.au</a>  |
| Solicitors                     | SOHO Lawyers<br>Level 5, 124 Exhibition Street<br>Melbourne VIC 3000  |
| Bankers                        | National Australia Bank   |
| Stock exchange listing         | Paragon Care Limited shares are listed on the Australian Securities Exchange (ASX code: PGC)  |
| Website                        | <a href="http://www.paragoncare.com.au">www.paragoncare.com.au</a>  |
| Corporate Governance Statement | <p>The directors and management are committed to conducting the business of Paragon Care Limited in an ethical manner and in accordance with the highest standards of corporate governance. Paragon Care Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The Company's 2019 Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report, can be found at:<br/><a href="http://www.paragoncare.com.au/corporate-governance-statement/">www.paragoncare.com.au/corporate-governance-statement/</a></p> |

On behalf of the Board of Paragon Care Limited, I am pleased to present to you our 2019 Annual Report.

The financial year ended 30<sup>th</sup> June 2019 was both productive yet challenging and there were many highlights and issues that were experienced throughout the year. The most pleasing aspect of the 2019 Financial Year was the transitioning of the business from a very cyclical and sometimes commoditised business into a business that is significantly less seasonal and now comprises many high quality and higher margin products and services. Most of Paragon's high-tech products now are sold with a strong trailing consumable business together with a fast-growing service and support division.

The key highlights for the 2019 Financial year included:

- Revenues grew 88% to \$257m (Core Revenues were up 101%)
- Gross Margins were held at just over 40% which was very pleasing
- The Sale of several underperforming, highly competitive and cyclical businesses effective, 30<sup>th</sup> June 2019
- The integration of 14 businesses into 4 'Pillar' business – Devices, Diagnostics, Capital & Consumables and Services
- Organic revenue growth of 9% for the Device business – a business that now represents a third of Paragon's total revenue base

Paragon has a key objective in the current financial year to lift organic growth from 5% to an average of 7% per annum across the board. In addition to this stronger revenue growth, the recent introduction of the Microsoft Dynamics ERP System (single IT platform across Paragon) will greatly assist to bring operating costs down from around 29% of revenue to closer to 26% of revenue. This major 'cost out' program has been well researched and has involved a 'top to toe' review of every cost category within the company. This reduction in operating costs is expected be higher than \$6m over the next 18 months.

The recent doubling of the size of the Company's revenue base has come with some challenges. However, the revenue and gross margin performance has been exceptional. Now a more effective and efficiently managed 'back office' structure is required. This will happen via tighter IT systems, a more streamlined financial structure together with a significant rationalisation of our many property leases. With these expected improvements, the Company's dividend program will be swiftly returned.

On behalf of the Board, I would like to thank our customers, our key equipment partners, staff and shareholders for their continued support. We move into the 2020 financial year with positivity but very mindful the Company must become more profitable through smarter rationalisation and planning.

Yours faithfully



Shane Tanner  
Chairman

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Paragon Care Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

### Directors

The following persons were directors of Paragon Care Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

|                                      |   |
|--------------------------------------|---|
| Shane Tanner                         | Non-Executive Chairman                        |
| Andrew Just                          | Managing Director and Chief Executive Officer |
| Michael Newton                       | Non-Executive Director                        |
| Geoffrey Sam OAM                     | Non-Executive Director                        |
| Brent Stewart                        | Non-Executive Director                        |
| Bruce Bian (appointed 13 March 2019) | Non-Executive Director                        |

### Principal activities

The principal continuing activity of the Group is supply of durable medical equipment, medical devices and consumable medical product to the health and aged care markets throughout Australia and New Zealand.

There were no significant changes in the nature of the activities of the Group that occurred during the year.

### Dividends

Dividends paid during the financial year were as follows:

|   | Consolidated |        |
|---|--------------|--------|
|   | 2019         | 2018   |
|   | \$'000       | \$'000 |
| Final dividend for the year ended 30 June 2018 (2018: 30 June 2017) of 2.0 cents (2018: 1.9 cents) per ordinary share   | 6,044        | 3,153  |
| Interim dividend for the year ended 30 June 2019 (2018: 30 June 2018) of 1.1 cents (2018: 1.1 cents) per ordinary share | 3,708        | 2,982  |
|   | 9,752        | 6,135  |

### Review of operations

The loss for the Group after providing for income tax amounted to \$14,386,000 (30 June 2018: profit of \$10,951,000).

For further details on the review of operations for the year can be found in the Chairman's report preceding this Directors' report.

### Significant changes in the state of affairs

On 5 July 2018 the Company purchased Lovell Surgical Pty Ltd for a \$1,000,000 cash payment. The business manufactures surgical kits which are sold by distributors including Insight Surgical Pty Ltd (a wholly owned subsidiary of Paragon Care Limited) to hospitals, day surgeries and other medical facilities across Australia. Lovell has manufacturing plants located in Melbourne operated by 40 staff; at the date of acquisition Lovell had net assets in excess of \$257,000 and was operating at breakeven. The vendors of Lovell may be paid further consideration in September 2021 equal to 3.5 times FY21 EBITDA should Lovell earnings in each of the years between FY18 and FY21 exceed the preceding year.

On 31 July 2018 the Company issued 2,056,256 ordinary shares at an issue price of \$0.7650 as part consideration for the acquisition of REM Systems Limited as announced on 8 June 2018.

On 27 August 2018 the Company announced an agreement to issue 50,418,386 shares at \$0.91 to Pioneer Pharma (Australia) Pty Ltd wholly owned subsidiary of China Pioneer Pharma Holdings Limited for consideration of \$45,880,731. The shares were allotted in two tranches, the first tranche of 16,483,517 shares were issued on 17 September 2018 and the second tranche of 33,934,869 shares were issued on 20 November 2018.

On 21 November 2018 the Company acquired 100% of the shares in Total Communication Pty Ltd. Total Communication is a unique acquisition providing an integrated vendor management and support solution to the aged care sector. These products cover Telephony, Nurse Calls, Access Control, CCTV, Cordless and Healthcare Wi-Fi requirements. As per the sale agreement, the vendors are entitled to an earnout of 3 times the EBITDA growth on forecasted FY20. Whilst this payment is uncapped, it's unlikely to go beyond the anticipated range of \$1,800,000 and \$2,850,000.

Further details on the significant changes in the state of affairs of the Group can be found in the Chairman's report preceding this Directors' report.

#### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

#### Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

#### Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

#### Information on directors

|                                      |   |
|--------------------------------------|---|
| Name:                                | Shane Tanner  |
| Title:                               | Non-Executive Chairman  |
| Qualifications:                      | FCPA, ACIS  |
| Experience and expertise:            | Shane was one of the Co-Founders of Paragon Care Limited and has considerable experience at both senior executive and board level, bringing more than 25 years' experience in healthcare and strategy. Shane has orchestrated and been responsible for numerous small and large-scale acquisitions. He has also helped to establish and guide a number of significant businesses. Shane is also currently Chairman of two successful ASX listed healthcare businesses, Zenitas Healthcare Limited and Rhythm Biosciences Limited. Shane is also Chairman of ASX listed Funtastic Limited. Previously, Shane was CEO of Symbion Health, one of Australia's largest diagnostic businesses and Chairman of Vision Eye Institute. |
| Other current directorships:         | Funtastic Limited (ASX: FUN), Rhythm Biosciences Limited (ASX: RHY) and Victory Offices Limited (ASX: VOL)  |
| Former directorships (last 3 years): | Vision Eye Institute  |
| Special responsibilities:            | Chairman of Nomination and Remuneration Committee and Member of Investment Review Committee   |
| Interests in shares:                 | 850,000 fully paid ordinary shares  |
| Interests in rights:                 | None  |

|                                      |  |
|--------------------------------------|--|
| Name:                                | Andrew Just  |
| Title:                               | Managing Director and Chief Executive Officer  |
| Qualifications:                      | BEC, HeC, MBA, GAICD   |
| Experience and expertise:            | Andrew has more than 25 years global experience in the healthcare industry through previous roles as Regional Director for Fortune 500 and ASX listed companies including Danaher (Radiometer), Stryker, Cochlear, GE Healthcare, Roche and Novartis. Andrew has worked across multiple healthcare sectors involving functional leadership of sales, marketing, clinical, services, operations, supply chain and general management. Andrew's track record includes successfully delivering strong organic growth through a clear focus on strategy and people, led by driving customer value. |
| Other current directorships:         | None   |
| Former directorships (last 3 years): | None   |
| Special responsibilities:            | Member of Investment Review Committee  |
| Interests in shares:                 | None   |
| Interests in rights:                 | 228,119 performance rights   |

Name: Michael Newton  
Title: Non-Executive Director  
Qualifications: B.App Sci., Grad Dip Bus Adm  
Experience and expertise: Michael is an experienced operator specialising in the industrial chemical sector with a long history in various executive roles with both Unilever and ICL PLC where he worked across Europe, Asia, U.S. and Australia. Michael successfully managed major diversification programs and exceptional business growth during his role at Symex Holdings (now Pental Ltd). Michael is currently Chairman of the Power House Youth Leadership Foundation.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Chairman of Audit and Risk Committee and Member of Nomination and Remuneration Committee

Interests in shares: 403,134 fully paid ordinary shares  
Interests in rights: None

Name: Geoffrey Sam OAM  
Title: Non-Executive Director  
Qualifications: BCom, M.Hospital Administration, M.Economics and Social Studies, FAICD  
Experience and expertise: Geoffrey has held numerous successful ASX listed board positions including Chairman of Money 3, Director of Hutchison's Childcare Services and Managing Director of Nova Health. Prior to his appointments to ASX listed companies, Geoffrey undertook numerous Chief Executive positions at Adelaide based hospitals. He is currently the Co-Founder and Director of HealthCare Australia Pty Ltd, a privately-owned health care company comprising a portfolio of 35 hospitals and a community nursing and rehabilitation business.

Other current directorships: CML Group Limited (ASX: CGR)  
Former directorships (last 3 years): None  
Special responsibilities: Chairman of Investment Review Committee, Member of Audit and Risk Committee and Member of Nomination and Remuneration Committee

Interests in shares: 1,466,417 fully paid ordinary shares  
Interests in rights: None

Name: Brent Stewart  
Title: Non-Executive Director  
Qualifications: B Sc, B Psych, FAICD  
Experience and expertise: Brent is an experienced company executive and director having occupied numerous senior executive and board roles over the past 25 years. He established and grew a successful company in Australia and New Zealand (Market Equity Pty Ltd) before selling to a large multinational group (Aegis PLC). Brent has a long association with various segments of the healthcare sector in Australia and Internationally. Currently, Brent occupies Non-Executive roles at HBF Health Ltd, Etherington Inc and Argonaut Ltd.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Member of the Audit and Risk Committee and Member of Nomination and Remuneration Committee

Interests in shares: 2,983,466 fully paid ordinary shares  
Interests in rights: None

|                                      |  |
|--------------------------------------|--|
| Name:                                | Bruce Bian   |
| Title:                               | Non-Executive Director (appointed 13 March 2019)   |
| Qualifications:                      | LL.B.  |
| Experience and expertise:            | Bruce emigrated from China in 1988, and is an Australian citizen living in Sydney. Bruce gained his law degree from Sydney University and has decades of experience across multiple facets of practice including significant Chinese and Australian relations. He brings to the boardroom team thirty five years of diverse industry experience from Australia and Asia, and his strong understanding of market trends in the Asia Pacific region support his demonstrated experience in driving strategic business growth whilst overseeing strong legal compliance and corporate governance. |
| Other current directorships:         | None   |
| Former directorships (last 3 years): | None   |
| Special responsibilities:            | None   |
| Interests in shares:                 | None   |
| Interests in rights:                 | None   |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

#### Company secretary

|                           |   |
|---------------------------|---|
| Name:                     | Melanie Leydin  |
| Title:                    | Company Secretary   |
| Qualifications:           | Bachelor of Business majoring in Accounting and Corporate Law   |
| Experience and expertise: | Melanie holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of Chartered Accountants Australia and New Zealand and is a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of Leydin Freyer. The practice provides outsourced company secretarial and accounting services to public and private companies. Melanie has over 25 years' experience in the profession, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting and shareholder relations. |

#### Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

|                  | <i>Full Board</i> |             | <i>Nomination and Remuneration Committee</i> |             |
|------------------|-------------------|-------------|--|-------------|
|                  | <i>Attended</i>   | <i>Held</i> | <i>Attended</i>                              | <i>Held</i> |
| Shane Tanner     | 13                | 13          | 2  | 3           |
| Andrew Just      | 13                | 13          | -  | -           |
| Michael Newton   | 13                | 13          | 3  | 3           |
| Geoffrey Sam OAM | 13                | 13          | 1  | 1           |
| Brent Stewart    | 13                | 13          | 1  | 1           |
| Bruce Bian       | 3                 | 3           | -  | -           |



|                  | <i>Audit and Risk Management<br/>Committee</i> |             | <i>Investment Review<br/>Committee*</i> |             |
|------------------|--|-------------|---|-------------|
|                  | <i>Attended</i>                                | <i>Held</i> | <i>Attended</i>                         | <i>Held</i> |
| Shane Tanner     | -  | -           | -                                       | -           |
| Andrew Just      | -  | -           | -                                       | -           |
| Michael Newton   | 2  | 2           | -                                       | -           |
| Geoffrey Sam OAM | 2  | 2           | -                                       | -           |
| Brent Stewart    | 1  | 1           | -                                       | -           |
| Bruce Bian       | -  | -           | -                                       | -           |

\* There were no investment review committee meetings held during the year to 30 June 2019

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

### Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

### Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

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

#### *Non-executive directors remuneration*

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at an Annual General Meeting and came into effect on 1 July 2015. Shareholders approved a maximum annual aggregate remuneration of \$350,000.

#### *Executive remuneration*

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

#### *Consolidated entity performance and link to remuneration*

The consolidated entity performance is not directly linked to remuneration. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

In considering non-executive director and executive remuneration the Directors take into consideration the Company's share performance and shareholder wealth creation. During the financial year the Company's share price traded between a low of 41.0 cents and a high of 83.0 cents. As at 30 June 2019 the Company's share price (ASX: PGC) was 41.5 cents per share.

Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last five years.

#### *Employee Incentive Plan*

During the year, shareholders approved the Paragon Care Employee Incentive Plan ('EIP') at the 2018 Annual General Meeting ('AGM').

The EIP is an employee equity plan developed to meet contemporary equity design standards and to provide the greatest possible flexibility in the design and offer choices available in respect of various new equity schemes.

The EIP enables the Company to offer employees a range of different employee share scheme ('ESS') interests. These ESS interests of 'awards' include options, performance rights, service rights, deferred shares, exempt shares, cash rights and stock appreciation rights.

The type of ESS interest that may be offered to employees will be determined by a number of factors, including:

- the remuneration or incentive purpose of the award;
- the tax jurisdiction that the participating employee lives and/or works in;
- the laws governing equity incentives where the participating employee lives and/or works; and
- the logistics and compliance costs associated with offering quality incentives where the participating employee lives and/or works.

#### Performance rights

##### Vesting conditions and important dates

The vesting conditions for these performance rights will depend on meeting the following:

- Service up to 31 August 2021; and
- If Paragon Care Limited achieves a compound annual growth rate ('CAGR') in earnings per share ('EPS') of between 10% (50% vests) and 15% (100% vests) per annum above the base year (financial year ended 30 June 2018), EPS of 5.4 cents per share over the period 1 July 2018 to 30 June 2021. Straight line interpolation will apply between 10% and 15%.

The vesting conditions for performance rights granted on 26 April 2019 will depend on meeting the following:

- Service up to 31 August 2022; and
- If Paragon Care Limited achieves a compound annual growth rate ('CAGR') in earnings per share ('EPS') of between 10% (50% vests) and 15% (100% vests) per annum above the base year (financial year ended 30 June 2019), EPS of 5.4 cents per share over the period 1 July 2019 to 30 June 2022. Straight line interpolation will apply between 10% and 15%.

The first vesting date of performance rights issued on 14 December 2018 is 31 August 2021 and all these performance rights will lapse on 30 September 2021 if not vested and exercised. The first vesting date of performance rights issued on 26 April 2019 is 31 August 2022 and all these performance rights will lapse on 30 September 2022 if not vested and exercised.

##### Other conditions

Unvested performance rights may, in certain circumstances, vest early in accordance with the terms of the EIP rules, and any leaver's policy that may apply from time to time, as approved by the Board.

Any dealing in shares is subject to the constraints of Australian insider trading laws and the Company's share trading policy. Participants are specifically prohibited from hedging their Company share price exposure in respect of their performance rights during the vesting period.

If, in the Board's opinion, an employee acts fraudulently or dishonestly or is in breach of their material obligations to the Company, the Board may determine that any or all of their performance rights which have not yet vested, lapse.

##### *Use of remuneration consultants*

During the financial year, the Group did not engage remuneration consultants.

##### *Voting and comments made at the Company's 20 November 2018 Annual General Meeting ('AGM')*

At the 20 November 2018 AGM, 97.87% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

*Details of remuneration*

The key management personnel of the Group consisted of the following directors of Paragon Care Limited:

- Shane Tanner - Non-Executive Chairman
- Andrew Just - Managing Director
- Michael Newton - Non-Executive Director
- Geoffrey Sam OAM - Non-Executive Director
- Brent Stewart - Non-Executive Director
- Bruce Bian - Non-Executive Director (appointed 13 March 2019)

And the following persons:

- Paul Smith - Group General Manager of Finance and Operations (appointed 29 October 2018)
- Leonard Kocovic - Chief Financial Officer (resigned effective 14 September 2018)

*Amounts of remuneration*

Details of the remuneration of key management personnel of the Group are set out in the following tables.

|  | <i>Short-term benefits</i>  |                   |                     | <i>Post-employment benefits</i> | <i>Long-term benefits</i> | <i>Share-based payments</i> | <i>Total</i>     |
|--|-----------------------------|-------------------|---------------------|---------------------------------|---------------------------|-----------------------------|------------------|
|  | <i>Cash salary and fees</i> | <i>Cash bonus</i> | <i>Non-monetary</i> | <i>Super-annuation</i>          | <i>Long service leave</i> | <i>Performance rights</i>   |                  |
| <b>2019</b>                            | \$                          | \$                | \$                  | \$                              | \$                        | \$                          | \$               |
| <i>Non-Executive Directors:</i>        |                             |                   |                     |                                 |                           |                             |                  |
| Shane Tanner                           | 120,000                     | -                 | -                   | -                               | -                         | -                           | 120,000          |
| Michael Newton                         | 23,466                      | -                 | 20,006              | 4,130                           | -                         | -                           | 47,602           |
| Geoffrey Sam OAM                       | 43,473                      | -                 | -                   | 4,130                           | -                         | -                           | 47,603           |
| Brent Stewart                          | 60,000                      | -                 | -                   | -                               | -                         | -                           | 60,000           |
| Bruce Bian*                            | 16,438                      | -                 | -                   | 1,562                           | -                         | -                           | 18,000           |
| <i>Executive Directors:</i>            |                             |                   |                     |                                 |                           |                             |                  |
| Andrew Just                            | 500,000                     | -                 | -                   | 25,000                          | -                         | -                           | 525,000          |
| <i>Other Key Management Personnel:</i> |                             |                   |                     |                                 |                           |                             |                  |
| Paul Smith*                            | 200,071                     | -                 | -                   | 16,955                          | -                         | -                           | 217,026          |
| Leonard Kocovic**                      | 134,462                     | 55,275            | 21,192              | 16,954                          | -                         | -                           | 227,883          |
|  | <u>1,097,910</u>            | <u>55,275</u>     | <u>41,198</u>       | <u>68,731</u>                   | -                         | -                           | <u>1,263,114</u> |

\* Remuneration is from date of appointment as key management personnel to 30 June 2019.

\*\* Remuneration is from 1 July 2018 to date of resignation as key management personnel.

|  | Short-term benefits  |            |               | Post-employment benefits | Long-term benefits | Share-based payments | Total            |
|--|----------------------|------------|---------------|--------------------------|--------------------|----------------------|------------------|
|  | Cash salary and fees | Cash bonus | Non-monetary  | Super-annuation          | Long service leave | Performance rights   |                  |
| 2018                                   | \$                   | \$         | \$            | \$                       | \$                 | \$                   | \$               |
| <i>Non-Executive Directors:</i>        |                      |            |               |                          |                    |                      |                  |
| Shane Tanner                           | 120,000              | -          | -             | -                        | -                  | -                    | 120,000          |
| Michael Newton                         | 43,473               | -          | -             | 4,130                    | -                  | -                    | 47,603           |
| Geoffrey Sam OAM                       | 43,473               | -          | -             | 4,130                    | -                  | -                    | 47,603           |
| Brent Stewart                          | 5,000                | -          | -             | -                        | -                  | -                    | 5,000            |
| <i>Executive Directors:</i>            |                      |            |               |                          |                    |                      |                  |
| Andrew Just                            | 223,718              | -          | -             | 11,878                   | -                  | -                    | 235,596          |
| Mark Simari                            | 267,839              | -          | 10,849        | 22,094                   | -                  | -                    | 300,782          |
| Brett Cheong                           | 160,000              | -          | -             | -                        | -                  | -                    | 160,000          |
| <i>Other Key Management Personnel:</i> |                      |            |               |                          |                    |                      |                  |
| Michael Rice*                          | 250,000              | -          | 7,532         | 23,750                   | -                  | -                    | 281,282          |
| Leonard Kocovic                        | 275,000              | -          | 15,806        | 25,000                   | -                  | -                    | 315,806          |
|  | <u>1,388,503</u>     | <u>-</u>   | <u>34,187</u> | <u>90,982</u>            | <u>-</u>           | <u>-</u>             | <u>1,513,672</u> |

\* Remuneration is from 1 July 2017 to date of resignation as key management personnel.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name                                   | Fixed remuneration |      | At risk - STI |      | At risk - LTI |      |
|--|--------------------|------|---------------|------|---------------|------|
|  | 2019               | 2018 | 2019          | 2018 | 2019          | 2018 |
| <i>Non-Executive Directors:</i>        |                    |      |               |      |               |      |
| Shane Tanner                           | 100%               | 100% | -             | -    | -             | -    |
| Michael Newton                         | 100%               | 100% | -             | -    | -             | -    |
| Geoffrey Sam OAM                       | 100%               | 100% | -             | -    | -             | -    |
| Brent Stewart                          | 100%               | 100% | -             | -    | -             | -    |
| Bruce Bian                             | 100%               | -    | -             | -    | -             | -    |
| <i>Executive Directors:</i>            |                    |      |               |      |               |      |
| Andrew Just                            | 100%               | 100% | -             | -    | -             | -    |
| <i>Other Key Management Personnel:</i> |                    |      |               |      |               |      |
| Paul Smith                             | 100%               | -    | -             | -    | -             | -    |
| Michael Rice                           | -                  | 100% | -             | -    | -             | -    |
| Leonard Kocovic                        | 76%                | 100% | 24%           | -    | -             | -    |

The proportion of the cash bonus paid/payable or forfeited is as follows:

| Name                                   | Cash bonus paid/payable |      | Cash bonus forfeited |      |
|--|-------------------------|------|----------------------|------|
|  | 2019                    | 2018 | 2019                 | 2018 |
| <i>Other Key Management Personnel:</i> |                         |      |                      |      |
| Leonard Kocovic                        | 100%                    | -    | -                    | -    |

### *Service agreements*

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of Director.

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Shane Tanner  
Title: Non-Executive Chairman  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$120,000. No termination benefit.

Name: Michael Newton  
Title: Non-Executive Director  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$50,000. No termination benefit.

Name: Geoffrey Sam OAM  
Title: Non-Executive Director  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$50,000. No termination benefit.

Name: Brent Stewart  
Title: Non-Executive Director  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$60,000. No termination benefit.

Name: Bruce Bian  
Title: Non-Executive Director  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$60,000. No termination benefit.

Name: Andrew Just  
Title: Managing Director and Chief Executive Officer  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$525,000. No termination benefit.

Name: Paul Smith  
Title: Group General Manager of Finance and Operations  
Term of agreement: No fixed term  
Details: Base salary including superannuation \$323,025.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

### *Share-based compensation*

#### *Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

*Performance rights*

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| <i>Grant date</i> | <i>Vesting date and exercisable date</i> | <i>Expiry date</i> | <i>Fair value per right at grant date</i> |
|-------------------|--|--------------------|---|
| 14 December 2018  | 31 August 2021                           | 30 September 2021  | \$0.8055                                  |
| 26 April 2019     | 31 August 2022                           | 30 September 2022  | \$0.8055                                  |

| <i>Name</i> | <i>Number of rights granted</i> | <i>Grant date</i> | <i>Vesting date and exercisable date</i> | <i>Expiry date</i> | <i>Fair value per right at grant date</i> |
|-------------|---------------------------------|-------------------|--|--------------------|---|
| Andrew Just | 228,119                         | 14 December 2018  | 31 August 2021                           | 30 September 2021  | \$0.8055                                  |
| Paul Smith  | 137,316                         | 26 April 2019     | 31 August 2022                           | 30 September 2022  | \$0.8055                                  |

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

| <i>Name</i> | <i>Number of rights granted during the year 2019</i> | <i>Number of rights granted during the year 2018</i> | <i>Number of rights vested during the year 2019</i> | <i>Number of rights vested during the year 2018</i> |
|-------------|--|--|---|---|
| Andrew Just | 228,119  | -  | -   | -   |
| Paul Smith  | 137,316  | -  | -   | -   |

Values of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

| <i>Name</i> | <i>Value of rights granted during the year</i><br>\$ | <i>Value of rights vested during the year</i><br>\$ | <i>Value of rights lapsed during the year</i><br>\$ | <i>Remuneration consisting of rights for the year</i><br>% |
|-------------|--|---|---|--|
| Andrew Just | 183,750  | -   | -   | 5%   |
| Paul Smith  | 65,911   | -   | -   | -  |

Details of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

| <i>Name</i> | <i>Grant date</i> | <i>Vesting date</i> | <i>Number of rights granted</i> | <i>Value of rights granted</i><br>\$ | <i>Value of rights vested</i><br>\$ | <i>Number of rights lapsed</i> | <i>Value of rights lapsed</i><br>\$ |
|-------------|-------------------|---------------------|---------------------------------|--------------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
| Andrew Just | 14 December 2018  | 31 August 2021      | 228,119                         | 183,750                              | -                                   | -                              | -                                   |
| Paul Smith  | 26 April 2019     | 31 August 2022      | 137,316                         | 65,911                               | -                                   | -                              | -                                   |

**Additional information**

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

|  | 2019   | 2018  | 2017  | 2016  | 2015  |
|--|--------|-------|-------|-------|-------|
| Share price at financial year end (\$)     | 41.50  | 82.50 | 77.00 | 70.00 | 59.00 |
| Total dividends declared (cents per share) | 1.10   | 4.20  | 4.10  | 3.00  | 1.95  |
| Basic earnings per share (cents per share) | (4.49) | 5.40  | 6.20  | 5.60  | 3.20  |

**Additional disclosures relating to key management personnel**

*Shareholding*

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

|                        | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|----------------------------------|----------------------------------|-----------|------------------|--------------------------------|
| <i>Ordinary shares</i> |                                  |                                  |           |                  |                                |
| Shane Tanner           | 850,000                          | -                                | -         | -                | 850,000                        |
| Michael Newton         | 403,134                          | -                                | -         | -                | 403,134                        |
| Geoffrey Sam OAM       | 1,343,974                        | -                                | 621,306   | (498,863)        | 1,466,417                      |
| Brent Stewart          | 2,823,466                        | -                                | 160,000   | -                | 2,983,466                      |
| Bruce Bian             | -                                | -                                | -         | -                | -                              |
| Andrew Just            | -                                | -                                | -         | -                | -                              |
| Paul Smith             | -                                | -                                | -         | -                | -                              |
|                        | 5,420,574                        | -                                | 781,306   | (498,863)        | 5,703,017                      |

*Performance rights holding*

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

|  | Balance at the start of the year | Granted | Vested | Expired/ forfeited/ other | Balance at the end of the year |
|--|----------------------------------|---------|--------|---------------------------|--------------------------------|
| <i>Performance rights over ordinary shares</i> |                                  |         |        |                           |                                |
| Shane Tanner                                   | -                                | -       | -      | -                         | -                              |
| Michael Newton                                 | -                                | -       | -      | -                         | -                              |
| Geoffrey Sam                                   | -                                | -       | -      | -                         | -                              |
| Brent Stewart                                  | -                                | -       | -      | -                         | -                              |
| Bruce Bian                                     | -                                | -       | -      | -                         | -                              |
| Andrew Just                                    | -                                | 228,119 | -      | -                         | 228,119                        |
| Paul Smith                                     | -                                | 137,316 | -      | -                         | 137,316                        |
|  | -                                | 365,435 | -      | -                         | 365,435                        |

***This concludes the remuneration report, which has been audited.***

**Shares under performance rights**

Unissued ordinary shares of Paragon Care Limited under performance rights at the date of this report are as follows:

| Grant date       | Expiry date       | Exercise price | Number under rights |
|------------------|-------------------|----------------|---------------------|
| 14 December 2018 | 30 September 2021 | \$0.8055       | 228,119             |
| 26 April 2019    | 30 September 2022 | \$0.8055       | 633,886             |
|                  |                   |                | <u>862,005</u>      |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.



### Shares issued on the exercise of performance rights

There were no ordinary shares of Paragon Care Limited issued on the exercise of performance rights during the year ended 30 June 2019 and up to the date of this report.

### Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 34 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 34 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

### Officers of the Company who are former partners of RSM Australia Partners

There are no officers of the Company who are former partners of RSM Australia Partners.

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### 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 immediately after this directors' report.

**Auditor**

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



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Shane Tanner  
Chairman

23 September 2019  
Melbourne

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Paragon Care Limited and its controlled entities for the year ended 30 June 2019, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM

**RSM AUSTRALIA PARTNERS**

*P A Ransom*

**P A RANSOM**

Partner

Dated: 23 September 2019  
Melbourne, Victoria

|   | Note | Consolidated<br>2019<br>\$'000 | 2018<br>\$'000 |
|---|------|--------------------------------|----------------|
| <b>Revenue from continuing operations</b>   |      |                                |                |
| Sale of goods   | 5    | 236,094                        | 117,200        |
| Cost of sales   |      | (140,992)                      | (69,024)       |
| Gross profit  |      | 95,102                         | 48,176         |
| Other income  | 6    | 1,162                          | 4,670          |
| Interest revenue calculated using the effective interest method   |      | 575                            | 245            |
| <b>Expenses</b>   |      |                                |                |
| Distribution  |      | (4,459)                        | (1,186)        |
| Marketing   |      | (2,672)                        | (1,125)        |
| Occupancy   |      | (1,336)                        | (1,976)        |
| Administration  | 7    | (70,186)                       | (28,778)       |
| Impairment of assets  |      | (37)                           | -              |
| Finance costs   | 7    | (5,959)                        | (2,164)        |
| <b>Profit before income tax expense from continuing operations</b>  |      | 12,190                         | 17,862         |
| Income tax expense  | 8    | (3,416)                        | (3,976)        |
| Profit after income tax expense from continuing operations  |      | 8,774                          | 13,886         |
| Loss after income tax benefit from discontinued operations  | 9    | (23,160)                       | (2,935)        |
| <b>Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Paragon Care Limited</b> |      | (14,386)                       | 10,951         |
| <b>Other comprehensive income</b>   |      |                                |                |
| <i>Items that may be reclassified subsequently to profit or loss</i>  |      |                                |                |
| Net gain on hedge of net investment, net of tax   |      | -                              | 845            |
| Net loss on hedge of net investment, net of tax   |      | (436)                          | -              |
| Foreign currency translation  |      | 1,632                          | (791)          |
| Other comprehensive income for the year, net of tax   |      | 1,196                          | 54             |
| <b>Total comprehensive income for the year attributable to the owners of Paragon Care Limited</b>                       |      | <u>(13,190)</u>                | <u>11,005</u>  |
| Total comprehensive income for the year is attributable to:   |      |                                |                |
| Continuing operations   |      | 9,970                          | 13,940         |
| Discontinued operations   |      | (23,160)                       | (2,935)        |
|   |      | <u>(13,190)</u>                | <u>11,005</u>  |

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

|  | Note | Consolidated<br>2019<br>\$'000 | 2018<br>\$'000 |
|--|------|--------------------------------|----------------|
|  |      | Cents                          | Cents          |
| <b>Earnings per share for profit from continuing operations attributable to the owners of Paragon Care Limited</b> |      |                                |                |
| Basic earnings per share   | 42   | 2.74                           | 6.84           |
| Diluted earnings per share   | 42   | 2.74                           | 6.84           |
| <b>Earnings per share for loss from discontinued operations attributable to the owners of Paragon Care Limited</b> |      |                                |                |
| Basic earnings per share   | 42   | (7.24)                         | (1.45)         |
| Diluted earnings per share   | 42   | (7.24)                         | (1.45)         |
| <b>Earnings per share for profit/(loss) attributable to the owners of Paragon Care Limited</b>                     |      |                                |                |
| Basic earnings per share   | 42   | (4.49)                         | 5.39           |
| Diluted earnings per share   | 42   | (4.49)                         | 5.39           |

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

|                                       | Note | Consolidated<br>2019<br>\$'000 | 2018<br>\$'000 |
|---------------------------------------|------|--------------------------------|----------------|
| <b>Assets</b>                         |      |                                |                |
| <b>Current assets</b>                 |      |                                |                |
| Cash and cash equivalents             | 10   | 34,224                         | 40,392         |
| Trade and other receivables           | 11   | 44,133                         | 43,808         |
| Inventories                           | 12   | 51,407                         | 55,301         |
| Investments                           | 13   | 22                             | 21             |
| Derivative financial instruments      | 14   | 291                            | 1,315          |
| Income tax refund due                 | 8    | 5,736                          | -              |
| Other                                 | 15   | 2,117                          | 1,480          |
| Total current assets                  |      | <u>137,930</u>                 | <u>142,317</u> |
| <b>Non-current assets</b>             |      |                                |                |
| Receivables                           | 16   | 574                            | 1,425          |
| Property, plant and equipment         | 17   | 13,056                         | 12,172         |
| Right-of-use assets                   | 18   | 20,923                         | -              |
| Intangibles                           | 19   | 204,321                        | 190,131        |
| Deferred tax                          | 8    | 7,392                          | 3,703          |
| Total non-current assets              |      | <u>246,266</u>                 | <u>207,431</u> |
| <b>Total assets</b>                   |      | <u>384,196</u>                 | <u>349,748</u> |
| <b>Liabilities</b>                    |      |                                |                |
| <b>Current liabilities</b>            |      |                                |                |
| Trade and other payables              | 20   | 47,947                         | 53,862         |
| Borrowings                            | 21   | 10,136                         | 10,743         |
| Lease liabilities                     |      | 3,031                          | -              |
| Income tax                            | 8    | -                              | 767            |
| Employee benefits                     |      | 4,296                          | 4,514          |
| Vendor conditional payables           | 22   | -                              | 1,201          |
| Other                                 | 23   | 7,462                          | 4,638          |
| Total current liabilities             |      | <u>72,872</u>                  | <u>75,725</u>  |
| <b>Non-current liabilities</b>        |      |                                |                |
| Payables                              | 24   | -                              | 1,457          |
| Borrowings                            | 25   | 89,243                         | 94,074         |
| Lease liabilities                     | 26   | 19,221                         | -              |
| Employee benefits                     |      | 871                            | 257            |
| Vendor conditional payables           | 27   | 9,673                          | 8,093          |
| Total non-current liabilities         |      | <u>119,008</u>                 | <u>103,881</u> |
| <b>Total liabilities</b>              |      | <u>191,880</u>                 | <u>179,606</u> |
| <b>Net assets</b>                     |      | <u>192,316</u>                 | <u>170,142</u> |
| <b>Equity</b>                         |      |                                |                |
| Issued capital                        | 28   | 202,718                        | 156,930        |
| Reserves                              | 29   | 1,095                          | (101)          |
| Retained profits/(accumulated losses) |      | <u>(11,497)</u>                | <u>13,313</u>  |
| <b>Total equity</b>                   |      | <u>192,316</u>                 | <u>170,142</u> |

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

| <b>Consolidated</b>  | <b>Issued capital<br/>\$'000</b> | <b>Foreign currency translation reserve<br/>\$'000</b> | <b>Hedging reserve - cash flow hedges<br/>\$'000</b> | <b>Retained profits<br/>\$'000</b> | <b>Total equity<br/>\$'000</b> |
|--|----------------------------------|--|--|------------------------------------|--------------------------------|
| Balance at 1 July 2017                                       | 74,347                           | 50   | (205)  | 8,498                              | 82,690                         |
| Profit after income tax expense for the year                 | -                                | -  | -  | 10,951                             | 10,951                         |
| Other comprehensive income for the year, net of tax          | -                                | (791)  | 845  | -                                  | 54                             |
| Total comprehensive income for the year                      | -                                | (791)  | 845  | 10,951                             | 11,005                         |
| <i>Transactions with owners in their capacity as owners:</i> |                                  |  |  |                                    |                                |
| Contributions of equity, net of transaction costs (note 28)  | 82,583                           | -  | -  | -                                  | 82,583                         |
| Dividends paid (note 30)                                     | -                                | -  | -  | (6,136)                            | (6,136)                        |
| Balance at 30 June 2018                                      | <u>156,930</u>                   | <u>(741)</u>   | <u>640</u>   | <u>13,313</u>                      | <u>170,142</u>                 |

| <b>Consolidated</b>  | <b>Issued capital<br/>\$'000</b> | <b>Foreign currency translation reserve<br/>\$'000</b> | <b>Hedging reserve - cash flow hedges<br/>\$'000</b> | <b>Accumulated losses<br/>\$'000</b> | <b>Total equity<br/>\$'000</b> |
|--|----------------------------------|--|--|--------------------------------------|--------------------------------|
| Balance at 1 July 2018                                       | 156,930                          | (741)  | 640  | 13,313                               | 170,142                        |
| Adjustment on adoption of AASB 16                            | -                                | -  | -  | (672)                                | (672)                          |
| Balance at 1 July 2018 - restated                            | 156,930                          | (741)  | 640  | 12,641                               | 169,470                        |
| Loss after income tax expense for the year                   | -                                | -  | -  | (14,386)                             | (14,386)                       |
| Other comprehensive income for the year, net of tax          | -                                | 1,632  | (436)  | -                                    | 1,196                          |
| Total comprehensive income for the year                      | -                                | 1,632  | (436)  | (14,386)                             | (13,190)                       |
| <i>Transactions with owners in their capacity as owners:</i> |                                  |  |  |                                      |                                |
| Contributions of equity, net of transaction costs (note 28)  | 45,788                           | -  | -  | -                                    | 45,788                         |
| Dividends paid (note 30)                                     | -                                | -  | -  | (9,752)                              | (9,752)                        |
| Balance at 30 June 2019                                      | <u>202,718</u>                   | <u>891</u>   | <u>204</u>   | <u>(11,497)</u>                      | <u>192,316</u>                 |

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

|  | Note | Consolidated<br>2019<br>\$'000 | 2018<br>\$'000       |
|--|------|--------------------------------|----------------------|
| <b>Cash flows from operating activities</b>                      |      |                                |                      |
| Receipts from customers (inclusive of GST)                       |      | 261,874                        | 132,449              |
| Payments to suppliers and employees (inclusive of GST)           |      | (246,629)                      | (119,081)            |
| Interest received  |      | 381                            | 246                  |
| Interest and other finance costs paid                            |      | (5,959)                        | (2,172)              |
| Income taxes paid  |      | (8,509)                        | (3,883)              |
|  |      | <u>          </u>              | <u>          </u>    |
| Net cash from operating activities                               | 41   | <u>1,158</u>                   | <u>7,559</u>         |
| <b>Cash flows from investing activities</b>                      |      |                                |                      |
| Payment for purchase of businesses, net of cash acquired         | 38   | (28,196)                       | (102,548)            |
| Payment for prior period purchase of businesses                  |      | -                              | (4,276)              |
| Payments for investments   |      | (1)                            | -                    |
| Payments for property, plant and equipment                       |      | (5,828)                        | (2,762)              |
| Payments for intangibles   |      | (3,893)                        | (3,790)              |
| Proceeds from disposal of business                               |      | 1,352                          | -                    |
| Proceeds from disposal of property, plant and equipment          |      | 1,012                          | -                    |
| Proceeds from release of security deposits                       |      | 80                             | -                    |
| Loan repayment   |      | -                              | 500                  |
|  |      | <u>          </u>              | <u>          </u>    |
| Net cash used in investing activities                            |      | <u>(35,474)</u>                | <u>(112,876)</u>     |
| <b>Cash flows from financing activities</b>                      |      |                                |                      |
| Proceeds from issue of shares                                    | 28   | 45,196                         | 69,980               |
| Share issue transaction costs                                    |      | (2,907)                        | (5,880)              |
| Proceeds from borrowings (net)                                   |      | -                              | 67,749               |
| Repayment of borrowings (net)                                    |      | (5,438)                        | -                    |
| Dividends paid   | 30   | (8,703)                        | (4,696)              |
|  |      | <u>          </u>              | <u>          </u>    |
| Net cash from financing activities                               |      | <u>28,148</u>                  | <u>127,153</u>       |
| Net increase/(decrease) in cash and cash equivalents             |      | (6,168)                        | 21,836               |
| Cash and cash equivalents at the beginning of the financial year |      | <u>40,392</u>                  | <u>18,556</u>        |
|  |      | <u>          </u>              | <u>          </u>    |
| Cash and cash equivalents at the end of the financial year       | 10   | <u><u>34,224</u></u>           | <u><u>40,392</u></u> |

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



## Note 1. General information

The financial statements cover Paragon Care Limited as a Group consisting of Paragon Care Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year. Paragon Care Limited and its subsidiaries together are referred to in these financial statements as the 'Group'. The financial statements are presented in Australian dollars, which is Paragon Care Limited's functional and presentation currency.

Paragon Care Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

50-54 Clayton Road  
Clayton VIC 3168

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 September 2019. The directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The Group has early adopted new Accounting Standard AASB 16 'Leases', which replaces AASB 117 'Leases'. No other new or amended Accounting Standards or Interpretations that are not yet mandatory have been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

#### *AASB 9 Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

## Note 2. Significant accounting policies (continued)

### *AASB 15 Revenue from Contracts with Customers*

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The Group manufactures and sells a range of medical products to the wholesale and end user market. Sales are recognised when the Company has delivered products and there is no unfilled obligation that could affect the customer's acceptance of the product. The consideration receivable is typically on terms of between 30 to 60 days. The transaction price is allocated to all performance obligations identified in the contract. Amounts disclosed as revenue are net of returns, trade allowances and rebates.

The Group has a Technology and Service platform. Revenue from services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised over time using the percentage of completion method, based on actual service provided as a percentage of the total service to be provided.

### *AASB 16 Leases*

The Group early adopted AASB 16 from 1 July 2018 notwithstanding that the standard is mandatorily effective for accounting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

### *Impact of adoption*

The Group has assessed the requirement of AASB 9 and there was no impact from the adoption of AASB 9.

The impact on the financial performance and position of the Group from the adoption of AASB 15 is immaterial. There is no retrospective adjustment to the financial report required.

AASB 16 'Leases' had a material impact on the financial statements. The Group previously classified operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and liabilities for most leases on the statement of financial position.

The Group has applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months remaining to the lease term.

The Group applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated. For the purposes of applying the modified retrospective approach to the leases, the Group has elected to measure the right-of-use assets at carrying amounts determined as if it had applied AASB 16 since the commencement date of the lease using its incremental borrowing rate at the date of initial application.

Ongoing lease payments are split between depreciation and interest expenses. Interest expenses on the lease liability is a component of financial costs, which are presented in the statement of profit or loss.

**Note 2. Significant accounting policies (continued)**

The impact upon disclosure in the current financial statements of adoption of the new standards is presented below:

| <i>EXTRACT</i>  | <i>Disclosure<br/>under current<br/>standards<br/>\$'000<br/>(as reported)</i> | <i>Disclosure<br/>under<br/>previous<br/>standards<br/>\$'000</i> | <i>Change<br/>\$'000</i> |
|---|--|---|--------------------------|
| <b>Statement of profit or loss</b>  |  |   |                          |
| Revenue - interest (AASB 15)  | 236,094  | 236,669   | (575)                    |
| Interest revenue calculated using the effective interest method (AASB 15) | 575  | -   | 575                      |
| Administration (AASB 9 and AASB 16)                                       | (69,730)   | (69,016)  | (714)                    |
| Impairment of assets (AASB 9)   | (37)   | -   | (37)                     |
|   | <hr/>  | <hr/>   | <hr/>                    |
| Profit before income tax expense from continuing operations               | 12,190   | 12,941  | (751)                    |
| Income tax expense  | (3,416)  | (3,416)   | -                        |
|   | <hr/>  | <hr/>   | <hr/>                    |
| Profit after income tax expense from continuing operations                | <u>8,774</u>   | <u>9,525</u>  | <u>(751)</u>             |

| <i>EXTRACT</i>                         | <i>Disclosure<br/>under current<br/>standards<br/>(as reported)<br/>\$'000</i> | <i>Disclosure<br/>under<br/>previous<br/>standards<br/>\$'000</i> | <i>Change<br/>\$'000</i> |
|--|--|---|--------------------------|
| <b>Statement of financial position</b> |  |   |                          |
| Right-of-use assets                    | 20,923   | -   | 20,923                   |
| Lease liabilities - current            | (3,031)  | -   | (3,031)                  |
| Lease liabilities - non-current        | (19,221)   | -   | (19,221)                 |
|  | <hr/>  | <hr/>   | <hr/>                    |
| Net assets                             | <u>192,316</u>   | <u>193,645</u>  | <u>(1,329)</u>           |

**AASB 16**

|   | <i>1 July<br/>2018<br/>\$</i> |
|---|-------------------------------|
| Right-of-use assets (AASB 16)                           | 27,702                        |
| Lease liabilities (AASB 16)                             | (27,702)                      |
| Accrued lease liability (AASB 16)                       | (672)                         |
| Decrease in opening retained earnings as at 1 July 2018 | <hr/> <u>(672)</u>            |

**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 ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

*Critical accounting estimates*

The preparation of the 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

## Note 2. Significant accounting policies (continued)

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 37.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Paragon Care Limited as at 30 June 2019 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those 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 de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

### Foreign currency translation

The financial statements are presented in Australian dollars, which is Paragon Care Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### Revenue recognition

The Group recognises revenue as follows:

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

## Note 2. Significant accounting policies (continued)

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

### *Sale of goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

### *Interest*

Interest 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.

### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

## Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or 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 nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

## Discontinued operations

A discontinued operation is a component of the Group 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 on the face of the statement of profit or loss and other comprehensive income.

## Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

## Note 2. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

### Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

## Note 2. Significant accounting policies (continued)

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

#### *Investments*

Investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities where the Group has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

#### *Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

### Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

|                        |                 |
|------------------------|-----------------|
| Land                   | Not depreciated |
| Leasehold improvements | 3-10 years      |
| Plant and equipment    | 3-7 years       |
| Motor vehicles         | 3-5 years       |

## Note 2. Significant accounting policies (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Right-of-use assets that meet the definition of investment property are measured at fair value where the Group has adopted a fair value measurement basis for investment property assets.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### *Goodwill*

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### *Website*

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

#### *Customer contracts*

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

#### *Software development*

Software development costs are capitalised only when incurred. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefit over the useful life of the software.



## Note 2. Significant accounting policies (continued)

### *R&D Projects*

R&D Projects are capitalised only when incurred. R&D Projects are amortised when the items developed are ready for market use. They are amortised over the expected useful life of the items developed.

### **Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### **Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### **Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

### **Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### **Finance costs**

Finance costs are expensed in the period in which they are incurred.

### **Employee benefits**

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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 high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## Note 2. Significant accounting policies (continued)

### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

### *Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

### **Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

## Note 2. Significant accounting policies (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### Issued capital

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.

### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

## Note 2. Significant accounting policies (continued)

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Paragon Care Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### *New Conceptual Framework for Financial Reporting*

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

### Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### *Provision for impairment of inventories*

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

#### *Fair value measurement hierarchy*

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

#### *Estimation of useful lives of assets*

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

#### *Goodwill and other indefinite life intangible assets*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

#### *Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

#### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### Business combinations

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

### Note 4. Operating segments

The Group operates within one operating segment only - Medical Equipment. The Medical Equipment segment supplies durable medical equipment and consumable medical product to hospitals, medical centres and aged care facilities in Australia predominantly. The Group does not have any other reporting segments.

### Note 5. Revenue

#### Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

|                                      | <b>Consolidated<br/>2019<br/>\$'000</b> |
|--------------------------------------|---|
| <i>Major product lines</i>           |   |
| Diagnostic Product line              | 23,425                                  |
| Capital and Consumables Product Line | 119,363                                 |
| Devices Product Line                 | 76,498                                  |
| Services and Technology              | 16,808                                  |
|                                      | <u>236,094</u>                          |
| <i>Geographical regions</i>          |   |
| Australia                            | 191,214                                 |
| New Zealand                          | 43,481                                  |
| Other                                | 1,399                                   |
|                                      | <u>236,094</u>                          |
| <i>Timing of revenue recognition</i> |   |
| Goods transferred at a point in time | 219,286                                 |
| Services transferred over time       | 16,808                                  |
|                                      | <u>236,094</u>                          |

AASB 15 was adopted using the modified retrospective approach. As a result, comparative information is not disclosed.

### Note 6. Other income

|                        | <b>Consolidated<br/>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
|------------------------|---|------------------------|
| Write back of earn-out | 1,162                                   | 4,068                  |
| Other income           | -                                       | 602                    |
|                        | <u>1,162</u>                            | <u>4,670</u>           |

**Note 6. Other income (continued)**

*Write back of earn-out*

In June 2019, the conditional payments on the earn outs for Labgear Pty Ltd were finalised with the respective vendors. The amounts agreed to be paid to the respective vendors was different to the contingent consideration estimated in the final acquisition accounting. Labgear Pty Ltd has no final earn-out due. The impact was a reduction of the vendor earn-out payable, resulting in a write back of \$1,162,777.

In June 2018, the conditional payments on the earn outs for Midas Software Solutions and Electro Medical Group were finalised with the respective vendors. The amounts agreed to be paid to the respective vendors was different to the contingent consideration estimated in the final acquisition accounting. Electro Medical Groups final earn-out was \$695,669 and Midas Software Solutions has no final earn-out due. Total final earn-out payables due of the two entities is \$695,669. The impact was a reduction of the vendor earn-out payable, resulting in a write back of \$4,072,517.

**Note 7. Expenses**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2019</b>         | <b>2018</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| Profit before income tax from continuing operations includes the following specific expenses:   |                     |               |
| <i>Depreciation (included in Administration expenses)</i>                                       |                     |               |
| Leasehold improvements  | 103                 | 264           |
| Plant and equipment   | 3,452               | 896           |
| Motor vehicles  | 78                  | 148           |
| Leasehold improvements right-of-use assets  | 3,784               | -             |
| Total depreciation  | <u>7,417</u>        | <u>1,308</u>  |
| <i>Amortisation (included in Administration expenses)</i>                                       |                     |               |
| Website   | 54                  | 25            |
| Contracts   | 751                 | -             |
| Software development costs  | 1,661               | 684           |
| R&D Projects (under construction)   | 125                 | 29            |
| Total amortisation  | <u>2,591</u>        | <u>738</u>    |
| Total depreciation and amortisation   | <u>10,008</u>       | <u>2,046</u>  |
| <i>Finance costs</i>  |                     |               |
| Interest and finance charges paid/payable   | 4,782               | 2,164         |
| Interest and finance charges paid/payable on lease liabilities                                  | 1,177               | -             |
| Finance costs expensed  | <u>5,959</u>        | <u>2,164</u>  |
| <i>Rental expense relating to operating leases</i>  |                     |               |
| Minimum lease payments  | -                   | 1,559         |
| <i>Superannuation expense (included in Administration expenses)</i>                             |                     |               |
| Defined contribution superannuation expense   | <u>3,052</u>        | <u>1,680</u>  |
| <i>Employee benefits expense excluding superannuation (included in Administration expenses)</i> |                     |               |
| Employee benefits expense excluding superannuation  | <u>46,209</u>       | <u>25,976</u> |

Note 8. Income tax

|   | Consolidated        |               |
|---|---------------------|---------------|
|   | 2019                | 2018          |
|   | \$'000              | \$'000        |
| <i>Income tax expense/(benefit)</i>   |                     |               |
| Current tax   | 1,788               | 2,491         |
| Deferred tax - origination and reversal of temporary differences                              | (2,378)             | 308           |
| Adjustment recognised for prior periods   | (100)               | (81)          |
|   | <u>(690)</u>        | <u>2,718</u>  |
| Aggregate income tax expense/(benefit)  | <u>(690)</u>        | <u>2,718</u>  |
| Income tax expense/(benefit) is attributable to:  |                     |               |
| Profit from continuing operations   | 3,416               | 3,976         |
| Loss from discontinued operations   | (4,106)             | (1,258)       |
|   | <u>(690)</u>        | <u>2,718</u>  |
| Aggregate income tax expense/(benefit)  | <u>(690)</u>        | <u>2,718</u>  |
| Deferred tax included in income tax expense/(benefit) comprises:                              |                     |               |
| Decrease/(increase) in deferred tax assets  | (2,378)             | 308           |
| <i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i> |                     |               |
| Profit before income tax expense from continuing operations                                   | 12,190              | 17,862        |
| Loss before income tax benefit from discontinued operations                                   | (27,266)            | (4,193)       |
|   | <u>(15,076)</u>     | <u>13,669</u> |
| Tax at the statutory tax rate of 30%  | (4,523)             | 4,101         |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income:          |                     |               |
| Earn-out write-back   | (349)               | 35            |
| Capital loss on divestment of business  | 3,951               | -             |
| Non-deductible costs  | 271                 | 268           |
| Other deductible expenses   | -                   | (382)         |
| Sundry items  | 60                  | (1,223)       |
|   | <u>(590)</u>        | <u>2,799</u>  |
| Adjustment recognised for prior periods   | (100)               | (81)          |
| Income tax expense/(benefit)  | <u>(690)</u>        | <u>2,718</u>  |
|   |                     |               |
|   | <b>Consolidated</b> |               |
|   | <b>2019</b>         | <b>2018</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <i>Amounts credited directly to equity</i>  |                     |               |
| Deferred tax assets   | (1,364)             | (1,099)       |
|   |                     |               |
|   | <b>Consolidated</b> |               |
|   | <b>2019</b>         | <b>2018</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <i>Deferred tax assets not recognised</i>   |                     |               |
| Deferred tax assets not recognised comprises temporary differences attributable to:           |                     |               |
| Unrecognised tax capital losses   | 3,951               | -             |
|   | <u>3,951</u>        | <u>-</u>      |
| Total deferred tax assets not recognised  | <u>3,951</u>        | <u>-</u>      |



**Note 8. Income tax (continued)**

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

|   | <b>Consolidated</b> |                     |
|---|---------------------|---------------------|
|   | <b>2019</b>         | <b>2018</b>         |
|   | <b>\$'000</b>       | <b>\$'000</b>       |
| <i>Deferred tax asset</i>   |                     |                     |
| Deferred tax asset comprises temporary differences attributable to: |                     |                     |
| Amounts recognised in profit or loss:                               |                     |                     |
| Tax losses  | 2,108               | 153                 |
| Property, plant and equipment                                       | (9)                 | 298                 |
| Employee benefits   | 1,713               | 1,508               |
| Accrued expenses  | 254                 | 11                  |
| Right of use asset/lease liability                                  | 250                 | -                   |
| Inventories   | 528                 | 140                 |
| Prepayments   | (6)                 | (11)                |
| Foreign exchange gains/(losses)                                     | 313                 | (558)               |
| Other assets  | 226                 | 270                 |
|   | <u>5,377</u>        | <u>1,811</u>        |
| Amounts recognised in equity:                                       |                     |                     |
| Transaction costs on share issue                                    | <u>2,015</u>        | <u>1,892</u>        |
| Deferred tax asset  | <u><u>7,392</u></u> | <u><u>3,703</u></u> |
| Movements:  |                     |                     |
| Opening balance   | 3,703               | 2,221               |
| Credited/(charged) to profit or loss                                | 2,378               | (308)               |
| Credited to equity  | 1,364               | 1,099               |
| Additions through business combinations (note 38)                   | 131                 | 691                 |
| Unders/overs  | (184)               | -                   |
| Closing balance   | <u><u>7,392</u></u> | <u><u>3,703</u></u> |
|   | <b>Consolidated</b> |                     |
|   | <b>2019</b>         | <b>2018</b>         |
|   | <b>\$'000</b>       | <b>\$'000</b>       |
| <i>Income tax refund due</i>  |                     |                     |
| Income tax refund due   | <u><u>5,736</u></u> | <u><u>-</u></u>     |
|   | <b>Consolidated</b> |                     |
|   | <b>2019</b>         | <b>2018</b>         |
|   | <b>\$'000</b>       | <b>\$'000</b>       |
| <i>Provision for income tax</i>                                     |                     |                     |
| Provision for income tax  | <u><u>-</u></u>     | <u><u>767</u></u>   |

**Note 9. Discontinued operations**

*Description*

On 29 November 2018, the Company announced that as part of the Group-wide transformation program, it had commenced a strategic review of the business operations, particularly the capital equipment operations.

**Note 9. Discontinued operations (continued)**

This strategic review included an evaluation of the business. Paragon renewed its vision and strategy with an increased focus on 'high technology and recurring revenues'. This Company decided to divest its Capital and Consumable operations as part of the wider strategic review of its operations and growth targets.

On 30 June 2019, the Company completed the divestment of the Capital and Consumable operation to Cabrini Health Limited, a well-established not-for-profit operator of hospitals and aged care facilities for a sale price of \$3,725,000.

*Financial performance information*

|   | <b>Consolidated</b>    |                       |
|---|------------------------|-----------------------|
|   | <b>2019</b>            | <b>2018</b>           |
|   | <b>\$'000</b>          | <b>\$'000</b>         |
| Sale of goods   | 20,604                 | 19,302                |
| Cost of sales   | (13,046)               | (12,812)              |
| Gross profit  | <u>7,558</u>           | <u>6,490</u>          |
| Other income  | 994                    | 5                     |
| Interest revenue calculated using the effective interest method | (194)                  | -                     |
|   | <u>800</u>             | <u>5</u>              |
| Distribution  | (995)                  | (570)                 |
| Marketing   | (41)                   | (10)                  |
| Occupancy   | (288)                  | (1,122)               |
| Administration  | (12,822)               | (8,977)               |
| Impairment of assets  | (76)                   | (1)                   |
| Finance costs   | -                      | (8)                   |
| Total expenses  | <u>(14,222)</u>        | <u>(10,688)</u>       |
| Loss before income tax benefit                                  | (5,864)                | (4,193)               |
| Income tax benefit  | 4,106                  | 1,258                 |
| Loss after income tax benefit                                   | <u>(1,758)</u>         | <u>(2,935)</u>        |
| Loss on disposal before income tax                              | (21,402)               | -                     |
| Income tax expense  | -                      | -                     |
| Loss on disposal after income tax expense                       | <u>(21,402)</u>        | <u>-</u>              |
| Loss after income tax benefit from discontinued operations      | <u><u>(23,160)</u></u> | <u><u>(2,935)</u></u> |

*Carrying amounts of assets and liabilities disposed*

|                               | <b>Consolidated</b> |                 |
|-------------------------------|---------------------|-----------------|
|                               | <b>2019</b>         | <b>2018</b>     |
|                               | <b>\$'000</b>       | <b>\$'000</b>   |
| Trade and other receivables   | 99                  | -               |
| Inventories                   | 7,595               | -               |
| Property, plant and equipment | 1,545               | -               |
| Other non-current assets      | 1,000               | -               |
| Total assets                  | <u>10,239</u>       | <u>-</u>        |
| Provisions                    | 576                 | -               |
| Total liabilities             | <u>576</u>          | <u>-</u>        |
| Net assets                    | <u><u>9,663</u></u> | <u><u>-</u></u> |

**Note 9. Discontinued operations (continued)**

*Details of the disposal*

|  | <b>Consolidated</b> |                   |
|--|---------------------|-------------------|
|  | <b>2019</b>         | <b>2018</b>       |
|  | <b>\$'000</b>       | <b>\$'000</b>     |
| Total sale consideration               | 3,725               | -                 |
| Carrying amount of net assets disposed | (9,663)             | -                 |
|  | <u>          </u>   | <u>          </u> |
| Loss on disposal before income tax     | (5,938)             | -                 |
| Impairment of goodwill                 | (15,464)            | -                 |
|  | <u>          </u>   | <u>          </u> |
| Loss on disposal after income tax      | <u>(21,402)</u>     | <u>          </u> |

**Note 10. Current assets - cash and cash equivalents**

|                          | <b>Consolidated</b> |                   |
|--------------------------|---------------------|-------------------|
|                          | <b>2019</b>         | <b>2018</b>       |
|                          | <b>\$'000</b>       | <b>\$'000</b>     |
| Cash at bank and on hand | 34,224              | 40,392            |
|                          | <u>          </u>   | <u>          </u> |

**Note 11. Current assets - trade and other receivables**

|                                   | <b>Consolidated</b> |                   |
|-----------------------------------|---------------------|-------------------|
|                                   | <b>2019</b>         | <b>2018</b>       |
|                                   | <b>\$'000</b>       | <b>\$'000</b>     |
| Trade receivables                 | 39,447              | 37,967            |
| Other receivables                 | 3,921               | 3,520             |
| Goods and services tax receivable | 765                 | 2,321             |
|                                   | <u>          </u>   | <u>          </u> |
|                                   | <u>44,133</u>       | <u>43,808</u>     |

*Allowance for expected credit losses*

The Group has recognised a loss of \$37,000 in profit or loss in respect of the expected credit losses for the year ended 30 June 2019.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

| <b>Consolidated</b>   | <b>Expected<br/>credit loss<br/>rate<br/>2019<br/>%</b> | <b>Carrying<br/>amount<br/>2019<br/>\$'000</b> | <b>Allowance<br/>for expected<br/>credit losses<br/>2019<br/>\$'000</b> |
|-----------------------|---|--|---|
| Not overdue           | -   | 19,126   | -   |
| 0 to 3 months overdue | -   | 18,509   | -   |
| 3 to 6 months overdue | -   | 1,812  | -   |
|                       |   | <u>          </u>                              | <u>          </u>   |
|                       |   | <u>39,447</u>                                  | <u>          </u>   |

AASB 9 was adopted using the modified retrospective approach. As a result, comparative information is not disclosed.

**Note 12. Current assets - inventories**

|                                | <b>Consolidated</b> |               |
|--------------------------------|---------------------|---------------|
|                                | <b>2019</b>         | <b>2018</b>   |
|                                | <b>\$'000</b>       | <b>\$'000</b> |
| Raw materials - at cost        | 976                 | 1,947         |
| Work in progress - at cost     | -                   | 31            |
| Finished goods - at cost       | 55,180              | 53,788        |
| Less: Provision for impairment | (4,749)             | (465)         |
|                                | <u>51,407</u>       | <u>55,301</u> |

**Note 13. Current assets - investments**

|               | <b>Consolidated</b> |               |
|---------------|---------------------|---------------|
|               | <b>2019</b>         | <b>2018</b>   |
|               | <b>\$'000</b>       | <b>\$'000</b> |
| Listed shares | <u>22</u>           | <u>21</u>     |

*Reconciliation*

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

|                    |           |           |
|--------------------|-----------|-----------|
| Opening fair value | 21        | -         |
| Additions          | <u>1</u>  | <u>21</u> |
| Closing fair value | <u>22</u> | <u>21</u> |

Refer to note 32 for further information on fair value measurement.

**Note 14. Current assets - derivative financial instruments**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2019</b>         | <b>2018</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| Forward foreign exchange contracts - cash flow hedges | <u>291</u>          | <u>1,315</u>  |

Refer to note 32 for further information on fair value measurement.

**Note 15. Current assets - other**

|                   | <b>Consolidated</b> |               |
|-------------------|---------------------|---------------|
|                   | <b>2019</b>         | <b>2018</b>   |
|                   | <b>\$'000</b>       | <b>\$'000</b> |
| Prepayments       | 2,150               | 1,432         |
| Security deposits | <u>(33)</u>         | <u>48</u>     |
|                   | <u>2,117</u>        | <u>1,480</u>  |

**Note 16. Non-current assets - receivables**

|                   | Consolidated   |                |
|-------------------|----------------|----------------|
|                   | 2019<br>\$'000 | 2018<br>\$'000 |
| Other receivables | 574            | 1,425          |

**Note 17. Non-current assets - property, plant and equipment**

|                                  | Consolidated   |                |
|----------------------------------|----------------|----------------|
|                                  | 2019<br>\$'000 | 2018<br>\$'000 |
| Land and buildings - at cost     | 2,145          | -              |
| Leasehold improvements - at cost | 3,994          | 3,914          |
| Less: Accumulated depreciation   | (659)          | (556)          |
|                                  | 3,335          | 3,358          |
| Plant and equipment - at cost    | 25,739         | 13,197         |
| Less: Accumulated depreciation   | (18,526)       | (5,068)        |
|                                  | 7,213          | 8,129          |
| Motor vehicles - at cost         | 1,241          | 1,485          |
| Less: Accumulated depreciation   | (878)          | (800)          |
|                                  | 363            | 685            |
|                                  | 13,056         | 12,172         |

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated                                      | <i>Land and<br/>buildings<br/>\$'000</i> | <i>Leasehold<br/>improve-<br/>ments<br/>\$'000</i> | <i>Plant and<br/>equipment<br/>\$'000</i> | <i>Motor<br/>vehicles<br/>\$'000</i> | <i>Total<br/>\$'000</i> |
|---|--|--|---|--------------------------------------|-------------------------|
| Balance at 1 July 2017                            | -  | 825  | 2,138                                     | 443                                  | 3,406                   |
| Additions   | -  | -  | 2,762                                     | -                                    | 2,762                   |
| Additions through business combinations (note 38) | -  | 2,797  | 4,494                                     | 390                                  | 7,681                   |
| Disposals   | -  | -  | (49)                                      | -                                    | (49)                    |
| Depreciation expense                              | -  | (264)  | (1,216)                                   | (148)                                | (1,628)                 |
|   | -  | 3,358  | 8,129                                     | 685                                  | 12,172                  |
| Balance at 30 June 2018                           | -  | 3,358  | 8,129                                     | 685                                  | 12,172                  |
| Additions   | 2,145                                    | 80   | 3,655                                     | -                                    | 5,880                   |
| Additions through business combinations (note 38) | -  | -  | 736                                       | -                                    | 736                     |
| Disposals   | -  | -  | (1,583)                                   | (244)                                | (1,827)                 |
| Exchange differences                              | -  | -  | (43)                                      | -                                    | (43)                    |
| Depreciation expense                              | -  | (103)  | (3,681)                                   | (78)                                 | (3,862)                 |
|   | 2,145                                    | 3,335  | 7,213                                     | 363                                  | 13,056                  |
| Balance at 30 June 2019                           | 2,145                                    | 3,335  | 7,213                                     | 363                                  | 13,056                  |

**Note 18. Non-current assets - right-of-use assets**

|                                   | <b>Consolidated</b>  |                 |
|-----------------------------------|----------------------|-----------------|
|                                   | <b>2019</b>          | <b>2018</b>     |
|                                   | <b>\$'000</b>        | <b>\$'000</b>   |
| Land and buildings - right-of-use | 24,707               | -               |
| Less: Accumulated depreciation    | <u>(3,784)</u>       | <u>-</u>        |
|                                   | <u><u>20,923</u></u> | <u><u>-</u></u> |

During the year the Group implemented accounting for leases under AASB 16. The impact of adopting this standard is set out in note 2.

The Group leases land and buildings for its offices under agreements of between one to eight years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| <b>Consolidated</b>                      | <i>Land and<br/>buildings<br/>\$'000</i> |
|--|--|
| Balance at 1 July 2017                   | <u>-</u>                                 |
| Balance at 30 June 2018                  | -  |
| Recognition on early adoption of AASB 16 | 24,707                                   |
| Depreciation expense                     | <u>(3,784)</u>                           |
| Balance at 30 June 2019                  | <u><u>20,923</u></u>                     |

Note 19. Non-current assets - intangibles

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2019<br>\$'000 | 2018<br>\$'000 |
| Goodwill - at cost                          | 211,648        | 179,231        |
| Less: Impairment                            | (15,464)       | -              |
|   | <u>196,184</u> | <u>179,231</u> |
| Website - at cost                           | 584            | 393            |
| Less: Accumulated amortisation              | (306)          | (252)          |
|   | <u>278</u>     | <u>141</u>     |
| Contracts - at cost                         | 2,493          | 2,493          |
| Less: Accumulated amortisation              | (751)          | -              |
|   | <u>1,742</u>   | <u>2,493</u>   |
| Software development costs - at cost        | 10,970         | 7,443          |
| Less: Accumulated amortisation              | (2,759)        | (1,098)        |
| Less: Impairment                            | (2,335)        | -              |
|   | <u>5,876</u>   | <u>6,345</u>   |
| R&D Projects (under construction) - at cost | 411            | 1,966          |
| Less: Accumulated amortisation              | (170)          | (45)           |
|   | <u>241</u>     | <u>1,921</u>   |
|   | <u>204,321</u> | <u>190,131</u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated                                      | Goodwill<br>\$'000 | Website<br>\$'000 | Contracts<br>\$'000 | Software<br>development<br>costs<br>\$'000 | R&D Projects<br>(under<br>construction)<br>\$'000 | Total<br>\$'000 |
|---|--------------------|-------------------|---------------------|--|---|-----------------|
| Balance at 1 July 2017                            | 93,115             | 11                | -                   | 4,221                                      | 1,072   | 98,419          |
| Additions   | -                  | 155               | -                   | 2,808                                      | 878   | 3,841           |
| Additions through business combinations (note 38) | 88,212             | -                 | 2,493               | -  | -   | 90,705          |
| Finalisation of acquisition accounting            | (2,492)            | -                 | -                   | -  | -   | (2,492)         |
| Exchange differences                              | 396                | -                 | -                   | -  | -   | 396             |
| Amortisation expense                              | -                  | (25)              | -                   | (684)                                      | (29)  | (738)           |
| Balance at 30 June 2018                           | 179,231            | 141               | 2,493               | 6,345                                      | 1,921   | 190,131         |
| Additions   | -                  | 191               | -                   | 3,527                                      | 175   | 3,893           |
| Additions through business combinations (note 38) | 29,281             | -                 | -                   | -  | -   | 29,281          |
| Finalisation of acquisition accounting            | 4,501              | -                 | -                   | -  | -   | 4,501           |
| Disposals   | -                  | -                 | -                   | -  | (1,730)   | (1,730)         |
| Exchange differences                              | (1,365)            | -                 | -                   | -  | -   | (1,365)         |
| Impairment of assets                              | (15,464)           | -                 | -                   | (2,335)                                    | -   | (17,799)        |
| Amortisation expense                              | -                  | (54)              | (751)               | (1,661)                                    | (125)   | (2,591)         |
| Balance at 30 June 2019                           | <u>196,184</u>     | <u>278</u>        | <u>1,742</u>        | <u>5,876</u>                               | <u>241</u>  | <u>204,321</u>  |

**Note 19. Non-current assets - intangibles (continued)**

*Impairment testing*

Goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

In testing whether goodwill is impaired, it is to be allocated to each cash generating unit ('CGU'). In identifying the groups of assets that constitute a CGU, it is the smallest group that generates largely independent cash inflows and cannot be larger than the Group's reportable operating segments before aggregation.

Under AASB 136, paragraph 68, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets (or groups of assets). The Group views that its past business combinations giving rise to Goodwill on acquisition relate to synergistic opportunities for its medical equipment operating and reportable segment. Therefore, it has been determined that the Group has one CGU which also has a common management structure.

Based on the discounted cash projections, the Company has anticipated positive operating cash flows generating a net present value greater than the current book value as at 30 June 2019.

Key assumptions used for the discounted cash flow projection:

|                       | <i>Rate</i><br>% |
|-----------------------|------------------|
| Revenue growth rate   | 5.0%             |
| Pre-tax discount rate | 11.6%            |
| Terminal growth rate  | 2.0%             |

*Sensitivity*

As disclosed in note 3, the directors have made judgements and estimates in respect of impairment testing of goodwill.

Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- revenue would need to decrease by more than 1% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in a further impairment charge for goodwill.

**Note 20. Current liabilities - trade and other payables**

|                                | <b>Consolidated</b> |               |
|--------------------------------|---------------------|---------------|
|                                | <b>2019</b>         | <b>2018</b>   |
|                                | <b>\$'000</b>       | <b>\$'000</b> |
| Trade payables                 | 40,450              | 41,711        |
| Goods and services tax payable | 2,890               | 4,889         |
| Deferred purchase price        | -                   | 1,578         |
| Other payables                 | 4,607               | 5,684         |
|                                | <u>47,947</u>       | <u>53,862</u> |

Refer to note 31 for further information on financial instruments.



**Note 21. Current liabilities - borrowings**

|                        | Consolidated  |               |
|------------------------|---------------|---------------|
|                        | 2019          | 2018          |
|                        | \$'000        | \$'000        |
| Bank loans             | 4,000         | 4,000         |
| Trade finance facility | 5,371         | 5,859         |
| Lease liability        | 765           | 884           |
|                        | <u>10,136</u> | <u>10,743</u> |

Refer to note 25 for further information on assets pledged as security and financing arrangements.

Refer to note 31 for further information on financial instruments.

**Note 22. Current liabilities - vendor conditional payables**

|                             | Consolidated |              |
|-----------------------------|--------------|--------------|
|                             | 2019         | 2018         |
|                             | \$'000       | \$'000       |
| Vendor conditional payables | -            | 1,201        |
|                             | <u>-</u>     | <u>1,201</u> |

**Note 23. Current liabilities - other**

|                  | Consolidated |              |
|------------------|--------------|--------------|
|                  | 2019         | 2018         |
|                  | \$'000       | \$'000       |
| Accrued expenses | 5,594        | 2,530        |
| Deferred revenue | 1,868        | 2,108        |
|                  | <u>7,462</u> | <u>4,638</u> |

**Note 24. Non-current liabilities - payables**

|                | Consolidated |              |
|----------------|--------------|--------------|
|                | 2019         | 2018         |
|                | \$'000       | \$'000       |
| Other payables | -            | 1,457        |
|                | <u>-</u>     | <u>1,457</u> |

Refer to note 31 for further information on financial instruments.

**Note 25. Non-current liabilities - borrowings**

|                 | Consolidated  |               |
|-----------------|---------------|---------------|
|                 | 2019          | 2018          |
|                 | \$'000        | \$'000        |
| Bank loans      | 88,322        | 92,322        |
| Lease liability | 921           | 1,752         |
|                 | <u>89,243</u> | <u>94,074</u> |

Refer to note 31 for further information on financial instruments.

**Note 25. Non-current liabilities - borrowings (continued)**

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

|                        | <b>Consolidated</b> |                |
|------------------------|---------------------|----------------|
|                        | <b>2019</b>         | <b>2018</b>    |
|                        | <b>\$'000</b>       | <b>\$'000</b>  |
| Bank loans             | 92,322              | 96,322         |
| Trade finance facility | 5,371               | 5,859          |
| Lease liability        | 1,686               | 2,636          |
|                        | <u>99,379</u>       | <u>104,817</u> |

*Assets pledged as security*

The bank has a first registered company charge over all assets and undertakings including uncalled capital of the Group.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

The Company has entered into a trade finance facility agreement with National Australia Bank to facilitate the importation of goods into Australia from overseas. Individual import transactions are financed for a period not exceeding 180 days after the arrival of goods in Australia. This facility has been extended as part of the Company's overall banking arrangements with National Australia Bank and is therefore covered by the charge. Unlike the bank loans this revolving trade finance facility does not have a reducing principal balance and is continuously utilised to provide a source of working capital more closely matching the inventory life cycle of imported products.

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

|                              | <b>Consolidated</b> |                |
|------------------------------|---------------------|----------------|
|                              | <b>2019</b>         | <b>2018</b>    |
|                              | <b>\$'000</b>       | <b>\$'000</b>  |
| Total facilities             |                     |                |
| Bank loans                   | 109,000             | 120,641        |
| Trade finance facility       | 10,000              | 5,859          |
| Bank guarantees and others   | 6,172               | -              |
| Lease liability              | 1,686               | 2,636          |
|                              | <u>126,858</u>      | <u>129,136</u> |
| Used at the reporting date   |                     |                |
| Bank loans                   | 92,322              | 96,322         |
| Trade finance facility       | 5,371               | 5,859          |
| Bank guarantees and others   | -                   | -              |
| Lease liability              | 1,686               | 2,636          |
|                              | <u>99,379</u>       | <u>104,817</u> |
| Unused at the reporting date |                     |                |
| Bank loans                   | 16,678              | 24,319         |
| Trade finance facility       | 4,629               | -              |
| Bank guarantees and others   | 6,172               | -              |
| Lease liability              | -                   | -              |
|                              | <u>27,479</u>       | <u>24,319</u>  |

**Note 26. Non-current liabilities - lease liabilities**

|                 | Consolidated |        |
|-----------------|--------------|--------|
|                 | 2019         | 2018   |
|                 | \$'000       | \$'000 |
| Lease liability | 19,221       | -      |

Refer to note 31 for further information on financial instruments.

The maturity analysis for lease liabilities is as follows:

|  | 2019<br>\$'000 |
|--|----------------|
| <b>Maturity analysis - contractual undiscounted cash flows</b> |                |
| Less than one year   | 4,047          |
| One to five years  | 15,452         |
| More than five years   | 7,008          |
| Total undiscounted lease liabilities at 30 June                | 26,507         |

**Lease liabilities included in the statement of financial position**

|  |        |
|--|--------|
| Lease liabilities included in the statement of financial position at 30 June | 22,252 |
|--|--------|

**Lease liabilities included in the statement of financial position at 30 June**

|                                 |        |
|---------------------------------|--------|
| Lease liabilities - current     | 3,031  |
| Lease liabilities - non-current | 19,221 |
|                                 | 22,252 |

**Note 27. Non-current liabilities - vendor conditional payables**

|                             | Consolidated |        |
|-----------------------------|--------------|--------|
|                             | 2019         | 2018   |
|                             | \$'000       | \$'000 |
| Vendor conditional payables | 9,673        | 8,093  |

Refer to note 38 for further information on vendor conditional payables.

**Note 28. Equity - issued capital**

|                              | Consolidated |             |         |         |
|------------------------------|--------------|-------------|---------|---------|
|                              | 2019         | 2018        | 2019    | 2018    |
|                              | Shares       | Shares      | \$'000  | \$'000  |
| Ordinary shares - fully paid | 337,885,292  | 283,647,930 | 202,718 | 156,930 |

**Note 28. Equity - issued capital (continued)**

*Movements in ordinary share capital*

| Details  | Date              | Shares             | Issue price | \$'000         |
|--|-------------------|--------------------|-------------|----------------|
| Balance  | 1 July 2017       | 165,018,009        |             | 74,347         |
| Issue of shares as part consideration for the acquisition of Medtek Pty Ltd  | 14 August 2017    | 55,432             | \$0.9020    | 50             |
| Issue of shares for part consideration for the earn-out payable to the vendors of the Western Biomedical business acquired in October 2015 | 14 August 2017    | 470,488            | \$0.9020    | 424            |
| Issue of shares pursuant to the Company's dividend re-investment plan  | 6 October 2017    | 670,677            | \$0.8870    | 595            |
| Issue of shares as part consideration for the acquisition of the Anaequip Medical Trust business   | 25 January 2018   | 550,898            | \$0.8350    | 460            |
| Issue of shares pursuant to the Company's entitlement issue to institutional investors of 1 new share for each 2.8 shares held             | 19 February 2018  | 25,077,179         | \$0.7250    | 18,181         |
| Placement to sophisticated and professional investors  | 19 February 2018  | 36,694,414         | \$0.7250    | 26,603         |
| Issue of shares as part consideration for the acquisition of Surgical Specialities business  | 2 March 2018      | 8,823,338          | \$0.7250    | 6,397          |
| Issue of shares pursuant to the Company's entitlement issue to retail investors of 1 new share   | 5 March 2018      | 15,704,966         | \$0.7250    | 11,386         |
| Issue of shares of the shortfall of the Company's entitlement issue to retail investors of 1 new share for each 2.8 shares held            | 5 March 2018      | 18,778,957         | \$0.7250    | 13,615         |
| Issue of shares pursuant to the Company's dividend re-investment plan  | 12 April 2018     | 1,203,572          | \$0.7020    | 845            |
| Issue of shares as part consideration for the acquisition of REM Systems business  | 12 June 2018      | 10,600,000         | \$0.7673    | 8,134          |
| Share issue transaction costs  |                   |                    |             | (4,107)        |
| Balance  | 30 June 2018      | 283,647,930        |             | 156,930        |
| Issue of shares as part consideration for the acquisition of REM Systems business  | 2 August 2018     | 2,056,256          | \$0.7650    | 1,578          |
| Issue of shares to Pioneer Australia, Pioneer Hong Kong, Pioneer Holdings, PioneerBV1, Tian Tian, UBS Trustees and the Lis                 | 14 September 2018 | 16,483,517         | \$0.9100    | 15,000         |
| Issue of shares pursuant to the Company's dividend re-investment plan  | 12 October 2018   | 1,004,167          | \$0.7167    | 720            |
| Issue of shares to Pioneer Australia, Pioneer Hong Kong, Pioneer Holdings, PioneerBV1, Tian Tian, UBS Trustees and the Lis                 | 20 November 2018  | 33,934,869         | \$0.8900    | 30,203         |
| Issue of shares pursuant to the Company's dividend re-investment plan  | 26 April 2019     | 758,553            | \$0.4331    | 329            |
| Share issue transaction costs  |                   |                    |             | (2,042)        |
| Balance  | 30 June 2019      | <u>337,885,292</u> |             | <u>202,718</u> |

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**Note 28. Equity - issued capital (continued)**

*Capital risk management*

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

When managing capital, the directors' objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders. The directors also aim to maintain a capital structure that ensures the lowest cost of capital available to the Company. The directors are constantly monitoring the Company's capital requirements and capital structure to take advantage of favourable opportunities for raising capital. The directors have no current plans to issue further shares or options on the market unless they conclude a further business acquisition. The directors monitor capital through the gearing ratio (net debt divided by total capital). The target for the Group's gearing ratio is below 50%.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as 'borrowings' as shown in the statement of financial position less 'cash and cash equivalents' as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position (including non-controlling interest) plus net debt.

The gearing ratio at the reporting date was as follows:

|  | <b>Consolidated</b>   |                       |
|--|-----------------------|-----------------------|
|  | <b>2019</b>           | <b>2018</b>           |
|  | <b>\$'000</b>         | <b>\$'000</b>         |
| Current liabilities - borrowings (note 21)           | 10,136                | 10,743                |
| Non-current liabilities - borrowings (note 25)       | 89,243                | 94,074                |
| Total borrowings                                     | <u>99,379</u>         | <u>104,817</u>        |
| Current assets - cash and cash equivalents (note 10) | (34,224)              | (40,392)              |
| Net debt   | <u>65,155</u>         | <u>64,425</u>         |
| Total equity   | 192,316               | 170,142               |
| Total capital  | <u><u>257,471</u></u> | <u><u>234,567</u></u> |
| Gearing ratio  | 25%                   | 27%                   |

The Group is not subject to any externally imposed capital requirements.

## Note 29. Equity - reserves

|                                      | Consolidated   |                |
|--------------------------------------|----------------|----------------|
|                                      | 2019<br>\$'000 | 2018<br>\$'000 |
| Foreign currency translation reserve | 891            | (741)          |
| Hedging reserve - cash flow hedges   | 204            | 640            |
|                                      | <u>1,095</u>   | <u>(101)</u>   |

### Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

## Note 30. Equity - dividends

### Dividends

Dividends paid during the financial year were as follows:

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2019<br>\$'000 | 2018<br>\$'000 |
| Final dividend for the year ended 30 June 2018 (2018: 30 June 2017) of 2.0 cents (2018: 1.9 cents) per ordinary share   | 6,044          | 3,153          |
| Interim dividend for the year ended 30 June 2019 (2018: 30 June 2018) of 1.1 cents (2018: 1.1 cents) per ordinary share | 3,708          | 2,982          |
|   | <u>9,752</u>   | <u>6,135</u>   |

### Franking credits

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2019<br>\$'000 | 2018<br>\$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | <u>22,585</u>  | <u>9,689</u>   |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

## Note 31. Financial instruments

### Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments.

**Note 31. Financial instruments (continued)**

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

**Market risk**

*Foreign currency risk*

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk management policy to hedge between 40% and 100% of anticipated foreign currency transactions for the subsequent 12 months.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2019</b>         | <b>2018</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Forward exchange contracts</b>        |                     |               |
| Buy foreign currency (cash flow hedges): |                     |               |
| AUD to USD                               | 19,268              | 24,738        |
| AUD to Euro                              | 14,010              | 7,461         |
| NZD to USD                               | 4,500               | 11,700        |
| NZD to AUD                               | 10,494              | 10,659        |
| AUD to NZD                               | -                   | 654           |
|  | <b>48,272</b>       | <b>55,212</b> |
|  | <b>48,272</b>       | <b>55,212</b> |

*Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with the floating interest rate. The Company's policy is not to actively manage interest cost. At 30 June 2019, \$9,371,034 (2018: \$9,859,215) of the Group's debt is at a variable rate of interest.

The financial instruments exposed to interest rate risk are as follows:

|  | <b>Consolidated</b> |                  |
|--|---------------------|------------------|
|  | <b>2019</b>         | <b>2018</b>      |
|  | <b>\$'000</b>       | <b>\$'000</b>    |
| <b>Financial assets</b>                                    |                     |                  |
| Cash and cash equivalents (interest bearing)               | 34,224              | 40,392           |
| <b>Financial liabilities</b>                               |                     |                  |
| Interest bearing liabilities - variable rate (current)     | (9,371)             | (9,859)          |
| Interest bearing liabilities - fixed rate (current)        | (765)               | (884)            |
| Interest bearing liabilities - variable rate (non-current) | (9,322)             | (64,322)         |
| Interest bearing liabilities - fixed rate (non-current)    | (79,921)            | (29,752)         |
|  | <b>(99,379)</b>     | <b>(104,817)</b> |

**Note 31. Financial instruments (continued)**

**Credit risk**

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. For customers, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limits by customers is regularly monitored by line management.

The Group has no significant exposure to any individual debtor of the Group and the credit risk is low for the majority of the balance. Receivables balances are monitored on an ongoing basis and given the low risk profile of customers the Group's exposure to bad debts is insignificant. The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments.

**Liquidity risk**

Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Forecasted cash flows are used to calculate the forecasted liquidity position and to maintain suitable liquidity levels.

**Financing arrangements**

Unused borrowing facilities at the reporting date:

|                            | <b>Consolidated</b> |               |
|----------------------------|---------------------|---------------|
|                            | <b>2019</b>         | <b>2018</b>   |
|                            | <b>\$'000</b>       | <b>\$'000</b> |
| Bank loans                 | 16,678              | 24,319        |
| Trade finance facility     | 4,629               | -             |
| Bank guarantees and others | 6,172               | -             |
|                            | <u>27,479</u>       | <u>24,319</u> |

**Remaining contractual maturities**

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| <b>Consolidated - 2019</b>    | <i>Weighted<br/>average<br/>interest rate</i><br>% | <i>Less than 6<br/>months</i><br>\$'000 | <i>Between 6 to<br/>12 months</i><br>\$'000 | <i>Between 1<br/>and 2 years</i><br>\$'000 | <i>Between 2<br/>and 6 years</i><br>\$'000 | <i>Remaining<br/>contractual<br/>maturities</i><br>\$'000 |
|-------------------------------|--|---|---|--|--|---|
| <b>Non-derivatives</b>        |  |   |   |  |  |   |
| Non-interest bearing          | -  | 58,443                                  | -   | 9,673                                      | -  | 68,116  |
| Interest-bearing - variable   | 3.30%  | 7,371                                   | 2,000                                       | 2,000                                      | 7,322                                      | 18,693  |
| Interest-bearing - fixed rate | 4.30%  | 383                                     | 383   | 765  | 79,156                                     | 80,687  |
| Total non-derivatives         |  | <u>66,197</u>                           | <u>2,383</u>                                | <u>12,438</u>                              | <u>86,478</u>                              | <u>167,496</u>  |



**Note 31. Financial instruments (continued)**

| <b>Consolidated - 2018</b>    | <i>Weighted<br/>average<br/>interest rate<br/>%</i> | <i>Less than 6<br/>months<br/>\$'000</i> | <i>Between 6<br/>and 12<br/>months<br/>\$'000</i> | <i>Between 1<br/>and 2 years<br/>\$'000</i> | <i>Between 2<br/>and 6 years<br/>\$'000</i> | <i>Remaining<br/>contractual<br/>maturities<br/>\$'000</i> |
|-------------------------------|---|--|---|---|---|--|
| <b>Non-derivatives</b>        |   |  |   |   |   |  |
| Non-interest bearing          | -   | 59,701                                   | -   | 8,093                                       | -   | 67,794   |
| Interest-bearing - variable   | 3.10%   | 7,859                                    | 2,000   | 4,000                                       | 60,322                                      | 74,181   |
| Interest-bearing - fixed rate | 3.60%   | 442                                      | 442   | 884   | 28,868                                      | 30,636   |
| Total non-derivatives         |   | <u>68,002</u>                            | <u>2,442</u>                                      | <u>12,977</u>                               | <u>89,190</u>                               | <u>172,611</u>   |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Fair value of financial instruments**

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**Note 32. Fair value measurement**

*Fair value hierarchy*

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

| <b>Consolidated - 2019</b>                            | <i>Level 1<br/>\$'000</i> | <i>Level 2<br/>\$'000</i> | <i>Level 3<br/>\$'000</i> | <i>Total<br/>\$'000</i> |
|---|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Assets</b>   |                           |                           |                           |                         |
| Listed shares   | 22                        | -                         | -                         | 22                      |
| Forward foreign exchange contracts - cash flow hedges | -                         | 291                       | -                         | 291                     |
| Total assets  | <u>22</u>                 | <u>291</u>                | <u>-</u>                  | <u>313</u>              |

|                            |          |          |              |              |
|----------------------------|----------|----------|--------------|--------------|
| <b>Liabilities</b>         |          |          |              |              |
| Vendor conditional payable | -        | -        | 9,673        | 9,673        |
| Total liabilities          | <u>-</u> | <u>-</u> | <u>9,673</u> | <u>9,673</u> |

| <b>Consolidated - 2018</b>                            | <i>Level 1<br/>\$'000</i> | <i>Level 2<br/>\$'000</i> | <i>Level 3<br/>\$'000</i> | <i>Total<br/>\$'000</i> |
|---|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Assets</b>   |                           |                           |                           |                         |
| Listed shares   | 21                        | -                         | -                         | 21                      |
| Forward foreign exchange contracts - cash flow hedges | -                         | 1,316                     | -                         | 1,316                   |
| Total assets  | <u>21</u>                 | <u>1,316</u>              | <u>-</u>                  | <u>1,337</u>            |

|                            |          |          |              |              |
|----------------------------|----------|----------|--------------|--------------|
| <b>Liabilities</b>         |          |          |              |              |
| Vendor conditional payable | -        | -        | 9,294        | 9,294        |
| Total liabilities          | <u>-</u> | <u>-</u> | <u>9,294</u> | <u>9,294</u> |

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

**Note 32. Fair value measurement (continued)**

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

*Valuation techniques for fair value measurements categorised within level 2 and level 3*

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

*Level 3 assets and liabilities*

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| <b>Consolidated</b>                | <i>Vendor<br/>conditional<br/>payable<br/>\$'000</i> |
|------------------------------------|--|
| Balance at 1 July 2017             | (16,865)   |
| Gains recognised in profit or loss | 4,268  |
| Additions                          | (8,599)  |
| Disposals                          | <u>11,902</u>  |
| Balance at 30 June 2018            | (9,294)  |
| Gains recognised in profit or loss | 1,163  |
| Additions                          | (2,817)  |
| Disposals                          | <u>1,275</u>   |
| Balance at 30 June 2019            | <u><u>(9,673)</u></u>                                |

**Note 33. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

|                              | <b>Consolidated</b>     |                         |
|------------------------------|-------------------------|-------------------------|
|                              | <b>2019</b>             | <b>2018</b>             |
|                              | <b>\$</b>               | <b>\$</b>               |
| Short-term employee benefits | 1,194,383               | 1,422,690               |
| Post-employment benefits     | <u>68,731</u>           | <u>90,982</u>           |
|                              | <u><u>1,263,114</u></u> | <u><u>1,513,672</u></u> |

**Note 34. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the Company, and its network firms:

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2019           | 2018           |
|  | \$             | \$             |
| <i>Audit services - RSM Australia Partners</i> |                |                |
| Audit or review of the financial statements    | 322,450        | 221,003        |
| <i>Other services - RSM Australia Partners</i> |                |                |
| Tax compliance services                        | 90,170         | 106,418        |
|  | <u>412,620</u> | <u>327,421</u> |
| <i>Audit services - network firms</i>          |                |                |
| Audit or review of the financial statements    | <u>64,520</u>  | <u>-</u>       |

**Note 35. Contingent liabilities**

The Group has given bank guarantees as at 30 June 2019 of \$5,019,613 (2018: \$1,070,787).

**Note 36. Related party transactions**

*Parent entity*

Paragon Care Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 39.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 33 and the remuneration report included in the directors' report.

*Transactions with related parties*

There were no transactions with related parties during the current and previous financial year.

*Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

**Note 37. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

|                                | <b>Parent</b> |                |
|--------------------------------|---------------|----------------|
|                                | <b>2019</b>   | <b>2018</b>    |
|                                | <b>\$'000</b> | <b>\$'000</b>  |
| Profit/(loss) after income tax | 3,695         | (2,132)        |
| Total comprehensive income     | <u>3,695</u>  | <u>(2,132)</u> |

*Statement of financial position*

|                                    | <b>Parent</b>         |                       |
|------------------------------------|-----------------------|-----------------------|
|                                    | <b>2019</b>           | <b>2018</b>           |
|                                    | <b>\$'000</b>         | <b>\$'000</b>         |
| Total current assets               | <u>15,670</u>         | <u>11</u>             |
| Total assets                       | <u>162,879</u>        | <u>124,042</u>        |
| Total current liabilities          | <u>864</u>            | <u>2,150</u>          |
| Total liabilities                  | <u>885</u>            | <u>349</u>            |
| Equity                             |                       |                       |
| Issued capital                     | 203,402               | 155,170               |
| Hedging reserve - cash flow hedges | (54)                  | (52)                  |
| Accumulated losses                 | <u>(41,354)</u>       | <u>(31,425)</u>       |
| Total equity                       | <u><u>161,994</u></u> | <u><u>123,693</u></u> |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity and its controlled entities are party to a deed of cross guarantee under which each company guarantees the debts of the others.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 38. Business combinations**

**2019**

*Lovell Surgical Pty Ltd*

On 5 July 2018, the Company acquired 100% of the shares in Lovell Surgical Pty Ltd.

*Total Communications Pty Ltd*

On 21 November 2018 the Company acquired 100% of the shares in Total Communication Pty Ltd. Total Communication is a unique acquisition providing an integrated vendor management and support solution to the aged care sector. These products cover Telephony, Nurse Calls, Access Control, CCTV, Cordless and Healthcare Wi-Fi requirements. As per the sale agreement, the vendors are entitled to an earnout of 3 times the EBITDA growth on forecasted FY20. Whilst this payment is uncapped, it's unlikely to go beyond the anticipated range of \$1.80 million and \$2.85 million.

*Impact of acquisition on the results of the Group*

AASB 3 'Business Combinations' requires disclosure of revenue and profit and loss of the acquired entity from date of acquisition, and disclosure of revenue and profit and loss of the Group for the current reporting period as though the acquisition date for all business combinations had been as of 1 July 2018. Management has determined that this is impracticable after consideration of all relevant factors in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Details of the business combinations during the year are as follows:

|  | <i>Lovell<br/>Surgical<br/>Fair value<br/>\$'000</i> | <i>Total<br/>Communi-<br/>cations<br/>Fair value<br/>\$'000</i> | <i>Total<br/>Fair value<br/>\$'000</i> |
|--|--|---|--|
| Net working capital  | 8  | 1,397   | 1,405                                  |
| Plant and equipment  | 367  | 369   | 736                                    |
| Deferred tax asset   | 50   | 70  | 120                                    |
| Employee benefits  | (168)  | (235)   | (403)                                  |
|  | <hr/>  | <hr/>   | <hr/>                                  |
| Net assets acquired  | 257  | 1,601   | 1,858                                  |
| Goodwill   | 743  | 28,538  | 29,281                                 |
|  | <hr/>  | <hr/>   | <hr/>                                  |
| Acquisition-date fair value of the total consideration transferred | <u>1,000</u>   | <u>30,139</u>   | <u>31,139</u>                          |
| Representing:  |  |   |  |
| Cash paid or payable to vendor                                     | 1,000  | 27,323  | 28,323                                 |
| Vendor earnout   | -  | 2,817   | 2,817                                  |
|  | <hr/>  | <hr/>   | <hr/>                                  |
|  | <u>1,000</u>   | <u>30,140</u>   | <u>31,140</u>                          |
| Cash used to acquire business, net of cash acquired:               |  |   |  |
| Acquisition-date fair value of the total consideration transferred | 1,000  | 30,140  | 31,140                                 |
| Less: payments to be made in future periods                        | -  | (2,817)   | (2,817)                                |
|  | <hr/>  | <hr/>   | <hr/>                                  |
| Net cash used  | <u>1,000</u>   | <u>27,323</u>   | <u>28,323</u>                          |

**Note 38. Business combinations (continued)**

**2018**

*REM Systems*

On 8 June 2018 the Company acquired 100% of the shares in REM Systems Limited a medical distribution company based in New Zealand. It is the leading supplier of medical and surgical products/consumables to hospitals and specialists in Australasia. Paragon now has a platform for a direct to market strategy for the New Zealand health and aged care sectors. Paragon has inherited a highly skilled and experienced management team.

As the acquisition of REM Systems Limited occurred on 8 June 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 8 June to 30 June 2018 of the acquired business.

The vendors are entitled to a payment of 4.5 times the EBITDA growth from 2017 in 2019 and 2020. The payments are calculated on the 12 months trading to 31 March 2020 and 2021. Any payment made in respect of FY20 is deducted from any amount payable in FY21. The payment is uncapped. The contingent consideration was estimated by calculating the present value of the future expected cashflows. The likely range is anticipated to be between \$3,800,000 and \$5,800,000.

*Immuno Pty Ltd*

On 24 May 2018 the Company acquired 100% of the shares in Immuno Pty Ltd a Supplier of advanced Pathology equipment, reagents and software for customers who include major hospitals, Government and private pathology labs, medical research centres and larger medical practices in Australia and New Zealand. Paragon has inherited a highly skilled and experienced management team.

As the acquisition of Immuno Pty Ltd occurred on 24 May 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 24 May to 30 June 2018 of the acquired business.

*Immulab Pty Ltd*

On 9 April 2018 the Company acquired 100% of CSL Immunohaematology business (renamed Immulab Pty Ltd) a Supplier of vital reagent red blood cell products used in pathology laboratories across Australia and New Zealand. It is the leading supplier of vital reagent red blood cell products to laboratories, hospitals and specialists in Australia and New Zealand. Paragon has inherited a highly skilled and experienced management team.

As the acquisition of 100% of CSL Immunohaematology business occurred on 9 April 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 9 April to 30 June 2018 of the acquired business.

*Labgear Pty Ltd*

On 15 May 2018 the Company acquired 100% of the shares in Labgear Pty Ltd a medical distribution company based in Queensland. It is the leading supplier of scientific products including equipment, consumables and technical service with a national presence. Paragon now has a platform for a direct to market strategy for the Queensland. Paragon Care has inherited a highly skilled and experienced management team.

As the acquisition of 100% of shares in Labgear Pty Ltd occurred on 15 May 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 15 May to 30 June 2018 of the acquired business.

An amount of \$1,163,000 recognised as an earn-out payment has been written back during the year as the earn-out hurdles were not achieved.

*Surgical Specialties Pty Ltd*

On 28 February 2018 the Company acquired 100% of the shares in Surgical Specialties Group a distributor of surgical medical devices to the Australian and New Zealand market, based in Sydney. It is the leading distributors in Orthopaedic, Pain Management and Infection Prevention sectors. Paragon now has a strong platform foundation in the Orthopaedic, Pain Management and Infection Prevention sectors of the rapidly growing medical device market in both Australia and New Zealand. Paragon Care has inherited a highly skilled and experienced management team.

As the acquisition of 100% of shares in Surgical Specialties Group occurred on 28 February 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 28 February to 30 June 2018 of the acquired business.

**Note 38. Business combinations (continued)**

The vendors are entitled to a payment of 4.5 times the EBITDA growth between CY18 and CY19. The payments are calculated on the 12 months trading to 31 Dec 2019 and 2020. Any payment made in respect of 2019 is deducted from any amount payable in 2020. The total payment is uncapped. The contingent consideration was estimated by calculating the present value of the future expected cashflows. The likely range is anticipated to be between \$1,100,000 and \$3,100,000.

*Medtech Solutions Pty Ltd*

On 15 January 2018 the Company acquired 100% of the shares in Medtech Solutions as a "Third Party" Medical Engineering company servicing multi-vendor, multi-modality equipment of varying technical complexity, based in NSW. This business is highly complementary to Paragon's existing service offerings under the branding of Paragon Service & Technology.

As the acquisition of 100% of shares in Medtech Solution on 15 January 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 15 January to 30 June 2018 of the acquired business.

*Anaequip Medical Pty Ltd*

On 26 January 2018 the Company acquired 100% of the shares in Anaequip Medical, a multi-agency distributor of medical products based in South Australia. Anaequip has strong long-standing relationships with Australian medical suppliers and distributes to a wide range of South Australian healthcare facilities in the acute, aged care, allied health and laboratory sectors. Paragon now has increasing its geographic reach through complimentary acquisitions and organic growth. Paragon Care has inherited a highly skilled and experienced management team.

As the acquisition of 100% of shares in Anaequip Medical on 26 January 2018 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 26 January to 30 June 2018 of the acquired business.

*Insight Surgical Pty Ltd*

On 22 December 2017 the Company acquired 100% of the shares in Insight Surgical Pty Ltd, a leading supplier of ophthalmic products servicing customers Australia-wide. Insight Surgical offers a highly complementary portfolio to Paragon's existing business, Designs for Vision. Paragon Care has inherited a highly skilled and experienced management team.

As the acquisition of 100% of shares in Insight Surgical Pty Ltd on 22 December 2017 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 22 December to 30 June 2018 of the acquired business.

*Medtek Pty Ltd*

On 14 August 2017 the Company acquired 100% of the Medtek Pty Ltd, Medtek focuses on the Far North Queensland region and specialises in providing high-quality biomedical engineering services and preventative maintenance to the Medical, Scientific, Aged Care and Allied Health clientele in the region. Paragon now has increased penetration into the region with direct representation, has expanded its service and maintenance offering and established a sales gateway for the balance of its product portfolio. Paragon Care has inherited a highly skilled and experienced management team.

As the acquisition of 100% of Medtek Pty Ltd, on 14 August 2017 the revenue and profit of the Group for the year ended 30 June 2018 reflects trading for 14 August to 30 June 2018 of the acquired business.

*Impact of acquisition on the results of the Group*

AASB 3 'Business Combinations' requires disclosure of revenue and profit and loss of the acquired entity from date of acquisition, and disclosure of revenue and profit and loss of the Group for the current reporting period as though the acquisition date for all business combinations had been as of 1 July 2017. Management has determined that this is impracticable after consideration of all relevant factors in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

**Note 38. Business combinations (continued)**

Summary of business combinations during the year are as follows:

|  | <i>REM<br/>Systems<br/>Fair value<br/>\$'000</i> | <i>Immulab<br/>Fair value<br/>\$'000</i> | <i>Immuno<br/>Fair value<br/>\$'000</i> | <i>Labgear<br/>Fair value<br/>\$'000</i> | <i>Surgical<br/>Specialities<br/>Fair value<br/>\$'000</i> | <i>Sub-total<br/>c/fwd<br/>Fair value<br/>\$'000</i> |
|--|--|--|---|--|--|--|
| Net working capital  | 19,514   | 2,978                                    | 523                                     | 445                                      | 1,340  | 24,800   |
| Plant and equipment  | 3,698  | -  | 64                                      | 74                                       | 3,277  | 7,113  |
| Contract   | 2,493  | -  | -                                       | -  | -  | 2,493  |
| Deferred tax asset   | 177  | 259                                      | 77                                      | 28                                       | 112  | 653  |
| Employee benefits  | (415)  | (863)                                    | (257)                                   | (94)                                     | (261)  | (1,890)  |
| Net assets acquired  | 25,467   | 2,374                                    | 407                                     | 453                                      | 4,468  | 33,169   |
| Goodwill   | 42,110   | 4,107                                    | 1,499                                   | 6,463                                    | 28,943   | 83,122   |
| Acquisition-date fair value of the total consideration transferred | <u>67,577</u>                                    | <u>6,481</u>                             | <u>1,906</u>                            | <u>6,916</u>                             | <u>33,411</u>  | <u>116,291</u>                                       |
| Representing:  |  |  |   |  |  |  |
| Cash paid or payable to vendor                                     | 53,060   | 6,481                                    | 1,906                                   | 5,753                                    | 24,888   | 92,088   |
| Paragon Care Limited shares issued to vendor                       | 9,712  | -  | -                                       | -  | 6,397  | 16,109   |
| Vendor earnout   | 4,805  | -  | -                                       | 1,163                                    | 2,126  | 8,094  |
|  | <u>67,577</u>                                    | <u>6,481</u>                             | <u>1,906</u>                            | <u>6,916</u>                             | <u>33,411</u>  | <u>116,291</u>                                       |
| Cash used to acquire business, net of cash acquired:               |  |  |   |  |  |  |
| Acquisition-date fair value of the total consideration transferred | 67,577   | 6,481                                    | 1,906                                   | 6,916                                    | 33,411   | 116,291  |
| Less: payments to be made in future periods                        | (4,805)  | -  | -                                       | -  | (2,126)  | (6,931)  |
| Less: vendor earnout not achieved                                  | -  | -  | -                                       | (1,163)                                  | -  | (1,163)  |
| Less: shares issued by Company as part of consideration            | (9,712)  | -  | -                                       | -  | (6,397)  | (16,109)   |
| Net cash used  | <u>53,060</u>                                    | <u>6,481</u>                             | <u>1,906</u>                            | <u>5,753</u>                             | <u>24,888</u>  | <u>92,088</u>  |



Note 38. Business combinations (continued)

|  | <i>Sub-total<br/>b/fwd<br/>Fair value<br/>\$'000</i> | <i>Medtech<br/>Solutions<br/>Fair value<br/>\$'000</i> | <i>Anaequip<br/>Medical<br/>Fair value<br/>\$'000</i> | <i>Insight<br/>Surgical<br/>Fair value<br/>\$'000</i> | <i>Medtek<br/>Fair value<br/>\$'000</i> | <i>Total<br/>Fair value<br/>\$'000</i> |
|--|--|--|---|---|---|--|
| Net working capital  | 24,800   | (85)   | 334   | 1,044   | 208                                     | 26,301                                 |
| Plant and equipment  | 7,113  | -  | 176   | 94  | 143                                     | 7,526                                  |
| Contract   | 2,493  | -  | -   | -   | -                                       | 2,493                                  |
| Deferred tax asset   | 653  | -  | 36  | 14  | 19                                      | 722                                    |
| Employee benefits  | (1,890)  | -  | (120)   | (45)  | (63)                                    | (2,118)                                |
| Net assets/(liabilities) acquired                                  | 33,169   | (85)   | 426   | 1,107   | 307                                     | 34,924                                 |
| Goodwill   | 83,122   | 2,640  | 1,854   | 4,702   | 393                                     | 92,711                                 |
| Acquisition-date fair value of the total consideration transferred | <u>116,291</u>                                       | <u>2,555</u>   | <u>2,280</u>  | <u>5,809</u>  | <u>700</u>                              | <u>127,635</u>                         |
| Representing:  |  |  |   |   |   |  |
| Cash paid or payable to vendor                                     | 92,088   | 2,555  | 1,820   | 5,303   | 650                                     | 102,416                                |
| Paragon Care Limited shares issued to vendor                       | 16,109   | -  | 460   | -   | 50                                      | 16,619                                 |
| Vendor earnout   | 8,094  | -  | -   | 506   | -                                       | 8,600                                  |
|  | <u>116,291</u>                                       | <u>2,555</u>   | <u>2,280</u>  | <u>5,809</u>  | <u>700</u>                              | <u>127,635</u>                         |
| Cash used to acquire business, net of cash acquired:               |  |  |   |   |   |  |
| Acquisition-date fair value of the total consideration transferred | 116,291  | 2,555  | 2,280   | 5,809   | 700                                     | 127,635                                |
| Less: payments to be made in future periods                        | (6,931)  | -  | -   | (506)   | -                                       | (7,437)                                |
| Less: vendor earnout not achieved                                  | (1,163)  | -  | -   | -   | -                                       | (1,163)                                |
| Less: shares issued by Company as part of consideration            | (16,109)   | -  | (460)   | -   | (50)                                    | (16,619)                               |
| Net cash used  | <u>92,088</u>  | <u>2,555</u>   | <u>1,820</u>  | <u>5,303</u>  | <u>650</u>                              | <u>102,416</u>                         |

Summary of vendor earnout is as follows:

|  | <b>Consolidated</b>    |                        |
|--|------------------------|------------------------|
|  | <b>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
| <b>Vendor payables</b>                           |                        |                        |
| Vendor payable from acquisitions during the year | 3,317                  | 8,599                  |
| Vendor payable from prior period acquisitions    | 6,336                  | 695                    |
| Total vendor payables                            | <u>9,653</u>           | <u>9,294</u>           |
| Represented by:                                  |                        |                        |
| Current - Vendor payables                        | -                      | 1,201                  |
| Non-current - Vendor payables                    | 9,653                  | 8,093                  |
|  | <u>9,653</u>           | <u>9,294</u>           |

**Note 39. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name   | Principal place of business /<br>Country of incorporation | Ownership interest |           |
|--|---|--------------------|-----------|
|  |   | 2019<br>%          | 2018<br>% |
| Paragon Care Group New Zealand Management Services Ltd | New Zealand   | 100.00%            | 100.00%   |
| Paragon Care Group New Zealand Ltd                     | New Zealand   | 100.00%            | 100.00%   |
| Paragon Care Group Management Services Pty Ltd         | Australia   | 100.00%            | 100.00%   |
| Paragon Care Group Australia Pty Ltd                   | Australia   | 100.00%            | 100.00%   |
| Paragon Care Group Holding Company Pty Ltd             | Australia   | 100.00%            | 100.00%   |
| Medtek Pty Ltd*  | Australia   | 100.00%            | 100.00%   |
| Paragon Medical Ltd*                                   | New Zealand   | 100.00%            | 100.00%   |
| Designed for Vision Ltd*                               | New Zealand   | 100.00%            | 100.00%   |
| REM Systems Ltd*                                       | New Zealand   | 100.00%            | 100.00%   |
| REM Systems Pty Ltd*                                   | Australia   | 100.00%            | 100.00%   |
| Meditron Pty Ltd*                                      | Australia   | 100.00%            | 100.00%   |
| Western Biomedical Pty Ltd*                            | Australia   | 100.00%            | 100.00%   |
| Designs For Vision Holdings Pty Ltd*                   | Australia   | 100.00%            | 100.00%   |
| Designs For Vision (Aust) Pty Ltd*                     | Australia   | 100.00%            | 100.00%   |
| Designs For Vision Pty Ltd*                            | Australia   | 100.00%            | 100.00%   |
| Electro Medical Group Pty Ltd*                         | Australia   | 100.00%            | 100.00%   |
| MIDAS Software Solutions Pty Ltd*                      | Australia   | 100.00%            | 100.00%   |
| Immulab Pty Ltd*                                       | Australia   | 100.00%            | 100.00%   |
| Insight Surgical Pty Ltd*                              | Australia   | 100.00%            | 100.00%   |
| MedTech Solution Pty Ltd*                              | Australia   | 100.00%            | 100.00%   |
| Surgical Specialities Holdings Pty Ltd*                | Australia   | 100.00%            | 100.00%   |
| Surgical Specialities Group Pty Ltd*                   | Australia   | 100.00%            | 100.00%   |
| Surgical Specialities Pty Ltd*                         | Australia   | 100.00%            | 100.00%   |
| Therapy Specialities Pty Ltd*                          | Australia   | 100.00%            | 100.00%   |
| Surgical Specialities (NZ) Ltd*                        | New Zealand   | 100.00%            | 100.00%   |
| Therapy Specialities Ltd*                              | New Zealand   | 100.00%            | 100.00%   |
| Pergamon Technologies Pty Ltd*                         | Australia   | 100.00%            | 100.00%   |
| Immuno Pty Ltd*  | Australia   | 100.00%            | 100.00%   |
| Immuno Ltd*  | New Zealand   | 100.00%            | 100.00%   |
| Labgear Australia Pty Ltd*                             | Australia   | 100.00%            | 100.00%   |
| Paragon Medical Pty Ltd*                               | Australia   | 100.00%            | 100.00%   |
| Scanmedics Pty Ltd*                                    | Australia   | 100.00%            | 100.00%   |
| Lovell Surgical Supplies International Pty Ltd*        | Australia   | 100.00%            | -         |
| Lovell Surgical Supplies Pty Ltd*                      | Australia   | 100.00%            | -         |
| Lovell Surgical Solutions Pty Ltd*                     | Australia   | 100.00%            | -         |
| Total Communications Pty Ltd*                          | Australia   | 100.00%            | -         |
| AXIS Health Pty Ltd**                                  | Australia   | 100.00%            | 100.00%   |
| Rapini Pty Ltd**                                       | Australia   | 100.00%            | 100.00%   |
| Paragon Healthcare Pty Ltd**                           | Australia   | 100.00%            | 100.00%   |
| GM Medical Pty Ltd**                                   | Australia   | 100.00%            | 100.00%   |
| Iona Medical Products Pty Ltd**                        | Australia   | 100.00%            | 100.00%   |
| Volker Australia Pty Ltd**                             | Australia   | 100.00%            | 100.00%   |
| L.R. Instruments Pty Ltd**                             | Australia   | 100.00%            | 100.00%   |
| Richards Medical Pty Ltd**                             | Australia   | 100.00%            | 100.00%   |
| Unikits Pty Ltd**                                      | Australia   | 100.00%            | 100.00%   |
| Walkit Pty Ltd**                                       | Australia   | 100.00%            | 100.00%   |

\* Subsidiary of Paragon Care Group Holding Company Pty Ltd

\*\* Subsidiary of AXIS Health Pty Ltd

**Note 40. Deed of cross guarantee**

The Company and its controlled entities, as listed in note 20 'Interests in subsidiaries', are party to a deed of cross guarantee under which each company guarantees the debts of the others.

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Paragon Care Limited, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position are substantially the same as the Group and therefore have not been separately disclosed.

**Note 41. Cash flow information**

*Reconciliation of profit/(loss) after income tax to net cash from operating activities*

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2019</b>         | <b>2018</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| Profit/(loss) after income tax (expense)/benefit for the year     | (14,386)            | 10,951        |
| Adjustments for:  |                     |               |
| Depreciation and amortisation                                     | 10,008              | 2,365         |
| Impairment of non-current assets                                  | 17,799              | -             |
| Loss on disposal of business                                      | 5,938               | -             |
| Write-back of provision for vendor earn-out                       | (1,163)             | (4,073)       |
| Initial recognition of right of use assets on adoption of AASB 16 | (2,455)             | -             |
| Change in operating assets and liabilities:                       |                     |               |
| Decrease/(increase) in trade and other receivables                | 4,750               | (4,655)       |
| Increase in inventories   | (7,443)             | (2,579)       |
| Increase in income tax refund due                                 | (5,736)             | -             |
| Increase in deferred tax assets                                   | (2,696)             | -             |
| Decrease in derivative assets                                     | 1,024               | -             |
| Increase/(decrease) in trade and other payables                   | (4,284)             | 6,448         |
| Decrease in provision for income tax                              | (767)               | (1,165)       |
| Increase in employee benefits                                     | 569                 | 267           |
| Net cash from operating activities                                | <u>1,158</u>        | <u>7,559</u>  |

*Non-cash investing and financing activities*

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2019</b>         | <b>2018</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| Shares issued in relation to business combinations | <u>3,093</u>        | <u>15,465</u> |

**Note 41. Cash flow information (continued)**

*Changes in liabilities arising from financing activities*

| <b>Consolidated</b>                          | <i>Bank<br/>loans<br/>\$'000</i> | <i>Trade finance<br/>facility<br/>\$'000</i> | <i>Lease<br/>liability<br/>\$'000</i> | <i>Total<br/>\$'000</i> |
|--|----------------------------------|--|---------------------------------------|-------------------------|
| Balance at 1 July 2017                       | 30,000                           | 6,264  | 804                                   | 37,068                  |
| Net cash from/(used in) financing activities | 66,322                           | (405)  | 1,832                                 | 67,749                  |
| Balance at 30 June 2018                      | 96,322                           | 5,859  | 2,636                                 | 104,817                 |
| Net cash used in financing activities        | (4,000)                          | (488)  | (950)                                 | (5,438)                 |
| Balance at 30 June 2019                      | <u>92,322</u>                    | <u>5,371</u>                                 | <u>1,686</u>                          | <u>99,379</u>           |

**Note 42. Earnings per share**

**Continuing operations**

|   | <b>Consolidated<br/>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
|---|---|------------------------|
| <i>Earnings per share for profit from continuing operations</i>                           |   |                        |
| Profit after income tax attributable to the owners of Paragon Care Limited                | <u>8,774</u>                            | <u>13,886</u>          |
|   | <b>Number</b>                           | <b>Number</b>          |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 320,062,582                             | 203,113,038            |
| Adjustments for calculation of diluted earnings per share:                                |   |                        |
| Performance rights  | 238,340                                 | -                      |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>320,300,922</u>                      | <u>203,113,038</u>     |
|   | <b>Cents</b>                            | <b>Cents</b>           |
| Basic earnings per share  | 2.74                                    | 6.84                   |
| Diluted earnings per share  | 2.74                                    | 6.84                   |

**Discontinued operations**

|   | <b>Consolidated<br/>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
|---|---|------------------------|
| <i>Earnings per share for loss from discontinued operations</i>                           |   |                        |
| Loss after income tax attributable to the owners of Paragon Care Limited                  | <u>(23,160)</u>                         | <u>(2,935)</u>         |
|   | <b>Number</b>                           | <b>Number</b>          |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 320,062,582                             | 203,113,038            |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>320,062,582</u>                      | <u>203,113,038</u>     |
|   | <b>Cents</b>                            | <b>Cents</b>           |
| Basic earnings per share  | (7.24)                                  | (1.45)                 |
| Diluted earnings per share  | (7.24)                                  | (1.45)                 |

**Note 42. Earnings per share (continued)**

Performance rights issued in the year have not been included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive due to the losses incurred in the year.

**For profit/(loss)**

|   | <b>Consolidated</b> |                    |
|---|---------------------|--------------------|
|   | <b>2019</b>         | <b>2018</b>        |
|   | <b>\$'000</b>       | <b>\$'000</b>      |
| <i>Earnings per share for profit/(loss)</i>   |                     |                    |
| Profit/(loss) after income tax attributable to the owners of Paragon Care Limited         | <u>(14,386)</u>     | <u>10,951</u>      |
|   | <b>Number</b>       | <b>Number</b>      |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | <u>320,062,582</u>  | <u>203,113,038</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>320,062,582</u>  | <u>203,113,038</u> |
|   | <b>Cents</b>        | <b>Cents</b>       |
| Basic earnings per share  | (4.49)              | 5.39               |
| Diluted earnings per share  | (4.49)              | 5.39               |

Performance rights issued in the year have not been included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive due to the losses incurred in the year.

**Note 43. Share-based payments**

**Employee Incentive Plan ('EIP')**

During the year, shareholders approved the Paragon Care Employee Incentive Plan ('EIP') at the 2018 Annual General Meeting ('AGM').

The EIP is an employee equity plan developed to meet contemporary equity design standards and to provide the greatest possible flexibility in the design and offer choices available in respect of various new equity schemes.

The EIP enables the Company to offer employees a range of different employee share scheme ('ESS') interests. These ESS interests of 'awards' include options, performance rights, service rights, deferred shares, exempt shares, cash rights and stock appreciation rights.

The type of ESS interest that may be offered to employees will be determined by a number of factors, including:

- the remuneration or incentive purpose of the award;
- the tax jurisdiction that the participating employee lives and/or works in;
- the laws governing equity incentives where the participating employee lives and/or works; and
- the logistics and compliance costs associated with offering quality incentives where the participating employee lives and/or works.

**Performance rights**

*Vesting conditions and important dates*

The vesting conditions for performance rights granted on 14 December 2018 will depend on meeting the following:

- Service up to 31 August 2021; and
- If Paragon Care Limited achieves a compound annual growth rate ('CAGR') in earnings per share ('EPS') of between 10% (50% vests) and 15% (100% vests) per annum above the base year (financial year ended 30 June 2018), EPS of 5.4 cents per share over the period 1 July 2018 to 30 June 2021. Straight line interpolation will apply between 10% and 15%.

**Note 43. Share-based payments (continued)**

The vesting conditions for performance rights granted on 26 April 2019 will depend on meeting the following:

- Service up to 31 August 2022; and
- If Paragon Care Limited achieves a compound annual growth rate ('CAGR') in earnings per share ('EPS') of between 10% (50% vests) and 15% (100% vests) per annum above the base year (financial year ended 30 June 2019), EPS of 5.4 cents per share over the period 1 July 2019 to 30 June 2022. Straight line interpolation will apply between 10% and 15%.

The first vesting date of performance rights issued on 14 December 2018 is 31 August 2021 and all these performance rights will lapse on 30 September 2021 if not vested and exercised. The first vesting date of performance rights issued on 26 April 2019 is 31 August 2022 and all these performance rights will lapse on 30 September 2022 if not vested and exercised.

*Other conditions*

Unvested performance rights may, in certain circumstances, vest early in accordance with the terms of the EIP rules, and any leaver's policy that may apply from time to time, as approved by the Board.

Any dealing in shares is subject to the constraints of Australian insider trading laws and the Company's share trading policy. Participants are specifically prohibited from hedging their Company share price exposure in respect of their performance rights during the vesting period.

If, in the Board's opinion, an employee acts fraudulently or dishonestly or is in breach of their material obligations to the Company, the Board may determine that any or all of their performance rights which have not yet vested, lapse.

*Summary of performance rights granted*

Set out below are summaries of performance rights granted under the plan:

*2019*

| <i>Grant date</i> | <i>Expiry date</i> | <i>Exercise price</i> | <i>Balance at the start of the year</i> | <i>Granted</i> | <i>Exercised</i> | <i>Expired/forfeited/other</i> | <i>Balance at the end of the year</i> |
|-------------------|--------------------|-----------------------|---|----------------|------------------|--------------------------------|---------------------------------------|
| 14/12/2018        | 30/09/2021         | \$0.0000              | -                                       | 228,119        | -                | -                              | 228,119                               |
| 26/04/2019        | 30/09/2022         | \$0.0000              | -                                       | 633,886        | -                | -                              | 633,886                               |
|                   |                    |                       | -                                       | 862,005        | -                | -                              | 862,005                               |

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 3 years.

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| <i>Grant date</i> | <i>Expiry date</i> | <i>Share price at grant date</i> | <i>Fair value at grant date</i> |
|-------------------|--------------------|----------------------------------|---------------------------------|
| 14/12/2018        | 30/09/2021         | \$0.8055                         | \$0.8055                        |
| 26/04/2019        | 30/09/2022         | \$0.4450                         | \$0.4450                        |

**Note 44. Events after the reporting period**

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

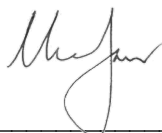
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 40 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



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Shane Tanner  
Chairman

23 September 2019  
Melbourne

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

We have audited the financial report of Paragon Care Limited ("the Company") and its subsidiaries (together referred to as "the Group") which comprises the consolidated statement of financial position as at 30 June 2019, 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 statements, 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 30 June 2019 and of its financial performance for the year then ended; 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 auditor independence requirements of 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.

**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.



**Key Audit Matters (Continued.)**

| Key Audit Matter  | How our audit addressed this matter   |
|---|---|
| <p><b>Accounting for Business Combinations</b><br/>Refer to Note 38 in the financial statements</p> <p>During the year, the Group completed two acquisitions and has finalised the acquisition accounting for nine acquisitions effected in the financial year 2018 as described in Note 38 of the consolidated financial statements. The Group has determined these acquisitions to be business combinations for which the purchase price includes contingent consideration.</p> <p>For the acquisitions effected in the current year, the purchase price is allocated between acquired assets and liabilities (including identified intangible assets), at their respective fair values and goodwill of \$29.3 million.</p> <p>This was considered a key audit matter as the accounting for the transactions is complex and involves significant judgements in applying the relevant accounting standards. This includes the recognition and valuation of consideration paid, including contingent consideration, the identification and valuation of intangible assets, and the determination of the fair value of the tangible assets acquired and liabilities assumed.</p> | <p>Our procedures to assess the accounting treatment of the acquisitions included:</p> <ul style="list-style-type: none"> <li>• Obtaining the securities and business purchase agreements and other associated documents and ensuring that the transactions had been accounted for in accordance with AASB 3 <i>Business Combinations</i>.</li> <li>• Testing the initial consideration to the signed purchase agreements and to bank statements;</li> <li>• Assessing the appropriateness of the fair values of the net assets acquired in the current year having regard to the completeness of assets and liabilities identified, and the reasonableness of any underlying assumptions in their respective valuations, including useful lives of the intangible and tangible assets acquired;</li> <li>• Evaluating the contingent consideration included in the purchase price including assessing the forecasts used for determining contingent consideration for current year acquisitions;</li> <li>• Evaluating the contingent consideration included in the purchase price for prior year acquisitions to determine a final adjustment within the measurement period; and</li> <li>• Assessing the disclosures in Note 38 to the financial statements in order to assess compliance with the disclosure requirements of AASB 3.</li> </ul> |
| <p><b>Impairment of Goodwill on acquisition</b><br/>Refer to Note 19 in the financial statements</p> <p>The Group has goodwill of \$196.2 million relating to its numerous acquisitions in recent years.</p> <p>This was considered a Key Audit Matter due to the materiality of the goodwill balance, and because the directors' assessment of the 'value in use' of the cash generating unit ("CGU") involves judgements about the future underlying cash flows of the business and the discount rates applied to it.</p> <p>For the year ended 30 June 2019, management has performed an impairment assessment over the goodwill balance by:</p> <ul style="list-style-type: none"> <li>• calculating the value in use for the CGU using a discounted cash flow model. This model used cash flows (revenues, expenses and capital expenditure) for the CGU for 5 years, with a terminal growth rate applied to the 5<sup>th</sup> year. The cash flows were then discounted to net present value using the Company's weighted average cost of capital (WACC); and</li> </ul>   | <p>Our audit procedures in relation to management's impairment assessment involved the assistance of our Corporate Finance team where required, and included:</p> <ul style="list-style-type: none"> <li>• Assessing management's determination that the goodwill should be allocated to a single CGU based on the nature of the Group's business and the manner in which results are monitored and reported;</li> <li>• Assessing the valuation methodology used;</li> <li>• Challenging the reasonableness of key assumptions, including the cash flow projections, exchange rates, discount rates, and sensitivities used;</li> <li>• Checking the mathematical accuracy of the cash flow model, and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and</li> </ul>   |

**Key Audit Matters (Continued.)**

| Key Audit Matter  | How our audit addressed this matter  |
|---|--|
| <b><i>Impairment of Goodwill on acquisition</i></b><br>Refer to Note 19 in the financial statements   |  |
| <ul style="list-style-type: none"> <li>• comparing the resulting value in use of the CGU to their respective book values.</li> </ul> Management also performed a sensitivity analysis over the value in use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC) to assess the impact on the valuations.   | <ul style="list-style-type: none"> <li>• Assessing the disclosures in Note 19 to the financial statements in order to assess compliance with the disclosure requirements of AASB136 and AASB138.</li> </ul>  |
| <b><i>Discontinued Operations</i></b><br>Refer to Note 9 in the financial statements  |  |
| The Company has completed the divestment of the Capital and Consumable Operations on 30 June 2019, as part of the Group-wide transformation program.<br>AASB 5 Non-current Assets Held for Sale and Discontinued Operations requires specific recognition, measurement and disclosure requirements relating to assets, liabilities, revenues and expenses of discontinued operations.<br>This was identified as a Key Audit Matter as this transaction involves management estimates and judgements in identification of account balances, revenue and expenses relating to the discontinued operations and related Note disclosures in the financial statements. | Our audit procedures in relation to accounting and disclosure of Discontinued Operations included: <ul style="list-style-type: none"> <li>• Obtaining and reviewing the sale agreements to understand the key terms and conditions;</li> <li>• Assessing the calculations and accounting for the sale of businesses to ensure assets, liabilities, revenues and expenses relating to the discontinued operations are accurately identified and reported;</li> <li>• Assessing management's determination of the impairment of goodwill relating to the discontinued operations; and</li> <li>• Assessing accounting policy, account balance classifications and Note disclosures to ensure that they are in accordance with the requirements of AASB 5.</li> </ul> |
| <b><i>Inventory Valuation (including provision for obsolescence)</i></b><br>Refer to Note 12 in the financial statements  |  |
| The Group's inventory balance, as disclosed in Note 12, consists primarily of finished goods of various medical equipment held for distribution.<br>Inventory is valued at the lower of cost or net realisable value. The assessment of the net realisable value of inventory requires a significant degree of management judgment. It includes assumptions concerning the provision for obsolescence, as well as future market conditions based on changing customer needs and market trends.<br>On the basis of the factors set out above, the valuation of inventory was considered to be a Key Audit Matter.  | Our audit procedures in relation to the existence and valuation of inventory included: <ul style="list-style-type: none"> <li>• Evaluating management assumptions and estimates applied to the provision for obsolescence through analysis of inventory ageing and historical sales levels by inventory product from the date the product was purchased in conjunction with assessing the quantity of products held;</li> <li>• Assessing the company's application of its policy for determining the provision for obsolescence;</li> <li>• Performing analytical procedures in respect of inventory holdings and inventory turnover; and</li> <li>• Testing the sales prices of inventory to ensure inventory is not being sold at less than cost.</li> </ul>    |

## Key Audit Matters (Continued.)

| Key Audit Matter  | How our audit addressed this matter   |
|---|---|
| <b>Recognition of Revenue</b><br>Refer to Note 5 in the financial statements  |   |
| <p>The Group's revenue from continuing operations for the year ended 30 June 2019 was \$236.1 Million.</p> <p>Whilst Revenue recognition does not involve significant management estimates or judgements, it is considered a Key Audit Matter because of its significance to the Group's reported financial performance.</p> <p>The risk is heightened due to having distinct product lines within the medical equipment business (diagnostics, capital and consumables, devices, services and technology) across different accounting systems.</p> <p>Revenue recognition can be impacted by a failure to correctly measure revenue in accordance with applicable accounting standards and/or by applying an incorrect approach to period end cut-off.</p> | <p>Our audit procedures in relation to revenue recognition included:</p> <ul style="list-style-type: none"> <li>• Assessing whether the Group's revenue recognition policies were in compliance with the requirements of AASB 15 <i>Revenues from Contracts with Customers</i>;</li> <li>• Evaluating and testing the operating effectiveness of management's controls related to revenue recognition;</li> <li>• Reviewing any large or unusual transactions close to the end of the financial year;</li> <li>• Conducting a combination of tests of controls, substantive analytical procedures and tests of details in respect of revenue related transactions; and</li> <li>• Reviewing disclosures in relation to impact on adoption of AASB 15 and the disaggregation of revenues in the financial statements.</li> </ul> |

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 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, 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.

## 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 have 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.

**Auditor's Responsibilities for the Audit of the Financial Report (Continued.)**

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

**Report on the Remuneration Report***Opinion on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Paragon Care Limited, for the year ended 30 June 2019, 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.

**RSM AUSTRALIA PARTNERS****P A RANSOM**

Partner

Dated: 24 September 2019  
Melbourne, Victoria

The shareholder information set out below was applicable as at 11 September 2019.

### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

|                                       | Number<br>of holders<br>of ordinary<br>shares |
|---------------------------------------|---|
| 1 to 1,000                            | 1,035   |
| 1,001 to 5,000                        | 2,325   |
| 5,001 to 10,000                       | 2,453   |
| 10,001 to 100,000                     | 255   |
| 100,001 and over                      | 1,176   |
|                                       | <hr/>   |
|                                       | 7,244   |
|                                       | <hr/> <hr/>                                   |
| Holding less than a marketable parcel | 1,345   |
|                                       | <hr/> <hr/>                                   |

### Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

|   | Number held | Ordinary shares<br>% of total<br>shares<br>issued |
|---|-------------|---|
| J P Morgan Nominees Australia Pty Limited   | 55,842,802  | 16.53   |
| Perpetual Corporate Trust Ltd (PPAPL A/C)   | 50,418,386  | 14.92   |
| Citicorp Nominees Pty Limited   | 9,748,745   | 2.89  |
| HSBC Custody Nominees (Australia) Limited   | 9,526,355   | 2.82  |
| ARGO Investments Limited  | 6,644,661   | 1.97  |
| National Nominees Limited   | 6,178,147   | 1.83  |
| JMT Investment Group VIC Pty Ltd (John Turner Super Fund A/C)                     | 5,337,489   | 1.58  |
| JMT Investment Group VIC Pty Ltd  | 5,221,517   | 1.55  |
| Negroni Holdings Pty Ltd (The DFN A/C)  | 4,727,531   | 1.40  |
| Mr Paul Andrew Schollum & Mr John Keith Radley (Estate of Leon Schollum)          | 4,717,320   | 1.40  |
| Grills Investments Pty Ltd (Grills Discretionary Trust)                           | 3,773,585   | 1.12  |
| Shemozel Pty Ltd (Shemozel A/C)   | 3,622,351   | 1.07  |
| Est Shirley May Schollum  | 3,106,538   | 0.92  |
| Lora Falls Pty Ltd (The Fehrmann Family Trust)                                    | 3,000,000   | 0.89  |
| Brent Michael Stewart & Michelle Jane Stewart (Brent Stewart Superannuation Fund) | 2,823,466   | 0.84  |
| CA Fourth Nominees Pty Limited (HSBC Cust Nom AU Ltd 11 A/C)                      | 2,768,908   | 0.82  |
| John Keith Radley & Paul Andrew Schollum (Paul Schollum Family)                   | 2,595,540   | 0.77  |
| ECapital Nominees Pty Limited (Accumulation A/C)                                  | 2,540,291   | 0.75  |
| Brispot Nominees Pty Ltd (House Head Nominee A/C)                                 | 2,319,700   | 0.69  |
| Mr Brian Duncan Wilsher   | 2,301,147   | 0.68  |
|   | <hr/>       |   |
|   | 187,214,479 | 55.44   |
|   | <hr/> <hr/> |   |

#### Unquoted equity securities

|                    | Number<br>on issue | Number<br>of holders |
|--------------------|--------------------|----------------------|
| Performance rights | 862,005            | 8                    |

### Substantial holders

Substantial holders in the Company are set out below:

|   | Ordinary shares |                          |
|---|-----------------|--------------------------|
|   | Number held     | % of total shares issued |
| J P Morgan Nominees Australia Pty Limited | 55,842,802      | 16.53                    |
| Perpetual Corporate Trust Ltd (PPAPL A/C) | 50,418,386      | 14.92                    |

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### *Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.