

ParagonCare

Annual
Report

2021



Health. Covered.

Paragon Care has become recognised as a leading provider of equipment, devices and consumables to the healthcare market. We also offer equipment repair, maintenance and total equipment management through Paragon Care Service & Technology.

Our agility and experience enables you to provide the right solution to achieve the optimal outcome, today.

About Us

Paragon Care (ASX:PGC) is an Australian based listed company in the healthcare sector. It is a leading provider of medical equipment, devices and consumables to the healthcare markets in Australian and New Zealand. These are high growth markets driven by the aging of the population, continuously rising consumer expectations and increasing government spending. Paragon has a portfolio of class-leading companies that are positioned to provide advanced technology solutions including equipment, consumables, and services for acute and ancillary care environments.

Covering healthcare across four strategic pillars

Devices

Paragon Care Specialty Devices includes businesses focused in both Eye Care and Orthopaedics. Our experienced team in eye care deliver comprehensive, best in class solutions, with devices and equipment for Optometry and Ophthalmic surgery, while our Orthopaedic focus is on innovative hip and knee prosthetic solutions, along with industry leading Pain Management and advanced surgical spine solutions.

Diagnostics

Paragon Care Diagnostics provide high quality, clinically advanced solutions to Immunochemistry, Diagnostic and Scientific Laboratories. Our solutions combine innovation, reliability and insight into your needs to enable you to deliver a best in class diagnostic or research service, with the highest level of diagnostic confidence, in the shortest time.

Capital & Consumables

Paragon Care's Capital and Consumables business sources clinically innovative products and solutions to make your most difficult procedures easier. Our solutions for Urology, Point of care, Anaesthetics and ICU comprise best of class technology with proven clinical benefits.

Service & Technology

With a network of engineers across Australia and New Zealand, Paragon Care has a team to support the uptime and performance of your important equipment and systems. Our experienced team and service methodology enables your team to have full confidence in their equipment and focus on their patients.

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Corporate Directory

Directors	Shane Tanner - Chairman Geoffrey Sam OAM Brent Stewart Mark Simari Paul Li
Company secretary	Melanie Leydin
Registered office	Level 4 96-100 Albert Road South Melbourne VIC 3205 Telephone: 1300 369 559 Telephone: (03) 8833 7800 Facsimile: (03) 8833 7890
Principal place of business	Waterman Business Centres Suite 46, 44 Lakeview Drive Scoresby VIC 3179
Share register	Link Market Services Limited Level 13, Tower 4, 727 Collins Street Melbourne VIC 3000 Telephone: 1300 554 474 Facsimile: (02) 9287 303 Website: www.linkmarketservices.com.au
Auditor	RSM Australia Partners Level 21, 55 Collins Street Melbourne VIC 3000 Website: https://www.rsm.global/australia/
Solicitors	SOHO Lawyers Level 5, 124 Exhibition Street 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	www.paragoncare.com.au
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 (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The Company's 2021 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: www.paragoncare.com.au/corporate-governance-statement/</p>

Chairman's Report

On behalf of the Board of Paragon Care Limited, I am pleased to present to you the Company's 2021 Annual Report.

The financial year ended 30th June 2021 was again challenging in terms of a COVID-19 disrupted business environment. This required the Company to fully draw on all of its resources to ensure progress across several business initiatives. The team at Paragon Care have performed exceptionally at all levels and have assisted in the re-establishment of solid growth strategies within the four pillar businesses of Devices, Diagnostics, Capital & Consumables, and Service & Technology. All pillars are now fully established and profitable.

The senior management team, led by Phil Nicholl, continued to grow revenues, expand gross margins and reduce costs during the year. More specifically:

- EBITDA was up 16% on the normalised performance last year
- Net operating cash flow increased 5-fold to \$27.5m
- Net Profit After Tax at \$8.3 million was very strong
- Net Debt reduced 7% year on year
- Earnings per Share was 2.45c

In addition, one of the key highlights of the FY21 financial results was the re-establishment of dividends for the first time in two years. The declaration of a 1c per share final dividend clearly indicates the Board's confidence in the Company's future, despite the ongoing challenges of COVID-19 lockdowns and business disruptions.

The Company's planned expansion into the significant Chinese blood reagent market was announced in June 2021 and work has commenced on building business relationships with our Chinese partners. The Company's intellectual property in this market sector is world-class and although revenues are still sometime away, we view China as an attractive growth market for our diagnostic products over the longer term.

Our new three-year banking facility with National Australia Bank (NAB) was successfully finalised during the year and this now provides the Company with a solid runway for future growth. The relationship with NAB is strong and the Company values this relationship.

Our international suppliers, who trust Paragon Care with the sales, distribution and servicing of their high-tech medical equipment, continue to benefit from the strength of Paragon Care's competitive advantages and reach through its exceptional relationships with most of Australia's major hospitals and health networks. Paragon Care now distributes for over 100 overseas equipment manufacturers.

On behalf of the Board, I would like to again thank our shareholders, suppliers, medical equipment partners and of course our great in-house team for their continued support. The Company enters the 2022 financial year with confidence, despite the ongoing challenges of the current global pandemic.

Yours faithfully,




Shane Tanner
Chairman

CEO Report

For the year ended 30 June 2021

CEO Report

Dear Shareholders,

We are very pleased to deliver these strong FY21 results, with improved cash flow and profitability, in a challenging external environment. These results validate our hard work over the past year to implement continuous improvement processes throughout the Company and to diversify our revenue streams across product lines and geographies.

Overview of FY21 Financial Results

Paragon Care delivered a solid financial performance in FY21 with strong growth across all key performance metrics. Revenue in FY21 was \$235.8m, up 2% from \$231.7m in FY20, which was a pleasing result in a COVID-19 disrupted business environment. Pleasingly, growth in the Devices pillar and the expansion of revenue from New Zealand was enough to offset the COVID-19 related adverse impacts in our aged care related businesses in FY21.

Gross profit margins improved slightly to 38.3% in FY21, up from 37.5% in FY20, due to a change in the sales mix away from lower margin product sales, such as personal protective equipment, and increased sales of higher margin sales in the Diagnostic and Devices Product Line.

Earnings before interest, tax, depreciation and amortisation increased to \$26.5m in FY21, a 16% increase compared with the normalised result last year. The improvement reflects the successful execution of improved operating processes and disciplined cost control. The Company has achieved a structurally lower cost base through the successfully completed cost rationalisation program, which has now transitioned into a business-as-usual approach focused on best practice and streamlined operations.

The net profit after tax result of \$8.3m represents earnings per share of 2.45 cents.

Operating cash flow increased by 419% to \$27.5m in FY21 up from \$5.3m in FY20. This was primarily driven by a tighter working capital cycle. All remaining vendor earn-outs relating to prior acquisitions totalling \$15.3m were paid in FY21 and the Company is now free of contingent vendor payments. In FY22, we expect a return to normal trading conditions, under which operating cash flow will be aligned with earnings.

Overview of Operations

We continue to make good progress operationally. Our facilities consolidation is on track and we are leveraging our buying power to gain efficiencies around freight. Our supply and operations planning initiatives have been challenged due to the COVID-19 related disruptions and we are yet to realise the benefit of this in our inventory management which we expect to see in FY22.

In May 2021, Paragon Care announced that the Company's banking facilities were successfully renegotiated with NAB. The new 3-year banking contract extends to July 2024 and the new covenants were designed to support the future growth of the business. This enables Paragon Care to resume dividends and explore acquisition opportunities.

Over the past year, we established a four pillar structure to provide a solid foundation for future growth.

Devices

The Devices pillar had strong revenue growth of 15% in FY21 to \$85.8m, due to a significant increase in elective surgery undertaken this year compared to last year. In addition, product sales relating to diagnostic equipment, including Ophthalmology and Angio product lines, strengthened.

Diagnostics

The Diagnostic pillar had solid revenue growth of 11% in FY21 to \$25.9m. This growth was driven by the expansion of the product range into transplant and laboratory related products, as well as COVID testing related product sales. Stronger growth across the Australian market generally offset sales through export distribution.

Capital & Consumables

The Capital & Consumables pillar experienced difficult trading conditions in many markets in FY21. Despite this, revenue was only down by 0.5% year on year to \$105.2m, due to stronger custom procedure packs sales and imaging equipment sales.

Service & Technology

The Service & Technology pillar was significantly impacted by COVID-19 business disruptions in FY21 with year on year revenue down by 31.7% to \$19m. The aged care portfolio continues to be adversely impacted with most residential aged care providers not focused on technology rollouts and upgrades.

CEO Report *Continued*
For the year ended 30 June 2021

Expansion in China

On 2 June 2021, Paragon Care announced that its Diagnostics business, Immulab, entered into a joint venture with Jiangsu Zojiwat Bio-Pharmaceuticals Co. Ltd, a Chinese healthcare company, for the distribution of Immulab's proprietary in vitro diagnostics blood bank reagents in China. These reagents are world class products, originally developed by CSL Ltd and acquired by Paragon Care in 2018. Paragon Care will work together with its Chinese partner to complete patient trials in at least three domestic clinical institutions, in line with the recommended National Medical Products Administration (NMPA) approval process, which is expected to take approximately two years. The opportunity for Paragon Care in this new market is very significant.

I would like to thank our dedicated team for their hard work and resilience in a challenging year. We have a strong management team which is comprised of former business owners, and complemented by new capabilities in People and Culture and Operations. Our KPI's which cascade throughout the organisation are fully aligned to ensure that the team is all working together towards a common goal.

Outlook

In FY22, management is focused on expanding its product range and attracting new agency agreements. There is also a focus on cross divisional selling to fully leverage the maturing pillar structure. Under this streamlined cost structure, with business-as-usual continuous improvement and improved inventory management, we are working towards 15% EBITDA margins. We are further developing initiatives around talent retention and development and we are ready for growth in aged care in a post-COVID economy. We have taken the first steps in our China growth strategy and we are now investing for growth to expand our extensive portfolio of best-in-breed med-tech solutions.



Phil Nicholl

Phil Nicholl
CEO
Paragon Care

Directors' Report
For the year ended 30 June 2021

Directors' Report

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 2021.

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
Geoffrey Sam OAM	Non-Executive Director
Brent Stewart	Non-Executive Director
Mark Simari	Non-Executive Director
Paul Li (appointed 27 January 2021)	Non-Executive Director
Bruce Bian (resigned 20 August 2020)	Former 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

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The profit for the Group after providing for income tax amounted to \$8,279,000 (30 June 2020: loss of \$77,269,000).

	2021	2020	Change from FY 20
	\$'000	\$'000	%
Revenue from continuing operations			
Revenue	235,840	231,689	2%
Cost of sales	(145,527)	(144,874)	1%
Gross profit	90,313	86,815	4%
Gross profit margin %	38.3%	37.5%	
Other income	1,508	320	
Operating expenses	(65,278)	(64,232)	
Normalised earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA')	26,543	22,903	16%
Abnormal expenses	-	(84,989)	
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	26,543	(62,086)	
Depreciation and amortisation	(6,200)	(8,053)	
Interest expense	(8,012)	(7,064)	
Profit/(loss) before tax	12,331	(77,203)	
Tax (expense)/benefit	(4,052)	5,603	
Profit/(loss) after tax from continuing operations	8,279	(71,600)	
Loss after tax from discontinued operations	-	(5,669)	
Loss after tax for the year attributable to owners	8,279	(77,269)	

Directors' Report *Continued*
For the year ended 30 June 2021

Revenue growth despite continue COVID-19 impacts

Revenue for the year reached \$235.8 million (2020: \$231.7 million) which, given the impact of COVID-19 and numerous suspensions of elective surgery during the year, was pleasing to see and consistent with the company refocusing on growth after several years of difficult trading.

Gross profit margin recovered during the year

Gross profit margins improved slightly to 38.3% in FY21, up from 37.5% in FY20, due to a change in the sales mix away from lower margin product sales, such as personal protective equipment, and increased sales of higher margin sales in the Devices and Diagnostic Product Line.

EBITDA increased by 15.9% compared to FY20 Adjusted EBITDA

In FY21, Adjusted EBITDA increased by 16% to \$26.5m, as a result of stronger revenues and margins but also reflecting the successful execution of improved operating processes and disciplined cost control.

The Group continues to be focused on building capabilities in the product verticals of Devices, Diagnostics, Capital & Consumable, Services and Technology and on focusing these capabilities into profitable market segments. The rationalisation of product lines, focus on customer service and empowerment of our highly dedicated and skilled staff will result in stronger growth and profitability as the Group and economy in general recovers from the impacts of the COVID-19 pandemic.

Significant changes in the state of affairs

The impact of the COVID-19 pandemic is ongoing, and it is not practicable to estimate the potential continuing impact after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the State and Federal Governments and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Sale of land and buildings

The land and buildings situated at 19-21 Peninsula Boulevard, Seaford VIC was sold for \$1.8 million on 3 August 2020.

Banking facilities

On 26 August 2020, the Group received approval from its bankers for an amendment to its banking facilities. This has resulted in a relaxation of the Group's obligation to comply with the existing facility covenants through to September 2021. In May 2021, Paragon Care announced that the Company's banking facilities were successfully renegotiated with NAB. The new 3-year banking contract extends to July 2024 and the new covenants were designed to support the future growth of the business. This enables Paragon Care to resume dividends and explore acquisition opportunities.

Share Capital Reduction

The company reduced its share capital by \$88,766,000 in accordance with Section 258F of the Corporations Act. The capital reduction will have the effect of reducing the share capital account and reducing Paragon Care's accumulated accounting losses. This is a technical adjustment which does not require shareholder approval and allows the Company to pay future franked dividends. The capital reduction has no impact on the Group's assets, net assets, financial results, cash flow or funding or that of the Group. The number of shares on issue will not change as a result of the capital reduction. Under section 258F(1) of the Corporations Act, a company may reduce its share capital without shareholder approval by cancelling any paid-up share capital that is not represented by available assets. The deficiency in Paragon Care's assets arose as a result of the impairment and subsequent sale of the Axis Health businesses in FY19 and further the impairment and write-off of assets in FY20 as a result of the business restructure undertaken during FY20.

Matters subsequent to the end of the financial year

Outside of the dividend declared below, no other matter or circumstance has arisen since 30 June 2021 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.

Dividends declared

In keeping with Directors confidence in Paragon Care, the directors have declared the payment of a fully franked final dividend of \$3,378,853 (1 cents per fully paid ordinary share) to be paid on 1st of October 2021 in respect of the financial year ended 30 June 2021.

The dividend will be paid to all shareholders on the register of members as at the Record Date of 14th of September 2021. This dividend has not been included as a liability in these financial statements.

The dividend of 1 cents per fully paid ordinary share for the 2021 financial year and represents a 41% payout of NPAT which is in line with the 40% to 60% company dividend payment policy.

Dividend reinvestment plan

Paragon Care operates a dividend reinvestment plan (DRP) that enables shareholders to elect to reinvest all, or up to a portion of, their dividends into additional shares in Paragon. Shares will be issued at the lower of 25.0 cents per share and the price derived by applying a discount of 5% to the volume weighted average market price of shares sold on the ASX over the 5 trading days commencing on and inclusive of the Ex-Dividend Date (13th of September 2021), subject to the discretion of the Board to determine the market price in certain circumstances.

The dividend payment will be fully underwritten by Taylor Collison Limited and therefore not impact the company's cash or net debt position.

Directors' Report *Continued*
For the year ended 30 June 2021

Information on Directors

Name:	Shane Tanner
Title:	Non-Executive Chairman
Qualifications:	F CPA, ACIS, MAICD
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 currently Chairman of Guardian Alphabet Holdco Pty Ltd (formerly a ASX listed company under the name of Zenitas Healthcare Limited). Previously, Shane was CEO of Symbion Health, one of Australia's largest diagnostic businesses and Chairman of Vision Eye Institute.
Other current directorships:	Cronos Australia Limited (CAU)
Former directorships (last 3 years):	Vision Eye Institute, Funtastic Limited, Rhythm Biosciences Limited
Special responsibilities:	Member of Nomination and Remuneration Committee and Member of Investment Review Committee
Interests in shares:	1,000,000 Fully Paid Ordinary Shares at 30 June 2021 (held indirectly)
Interests in rights:	None

Name:	Geoffrey Sam OAM
Title:	Non-Executive Chairman
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:	EarlyPay Limited (ASX: EPY) formerly known as CML Group Limited (ASX: CGR)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Investment Review Committee and Member of Audit and Risk Committee
Interests in shares:	1,964,675 Fully Paid Ordinary Shares at 30 June 2021 (held indirectly)
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:	Chairman of Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	3,246,334 Fully Paid Ordinary Shares at 30 June 2021 (held indirectly)
Interests in rights:	None

Name:	Mark Simari
Title:	Non-Executive Director (appointed 27 November 2019)
Qualifications:	Bachelor of Business (Accounting)
Experience and expertise:	Mark is an experienced and accomplished professional in the health industry and has over 12 years' Board experience in a diverse range of organisations, including not-for-profits. Mark was the former Chief Executive Officer and Managing Director and Co-Founder of Paragon Care during his tenure (between 2008 and 2018). He was instrumental in Paragon Care becoming one of the largest independent healthcare suppliers in the Australian and New Zealand market, creating a healthcare platform spanning across capital equipment, consumables, devices and service and maintenance. Mark has also held various directorship positions in other companies such as Tali Digital Limited, Social Investment Australia Limited, Sage Capital Group Pty Ltd, InterPrac Financial Planning Pty Ltd and DKN Financial Group. Mark is presently the Chairman of Unisono Pty Limited and Akita Consulting. He also holds advisory roles with Fruitlink Pty Ltd.
Other current directorships:	None
Former directorships (last 3 years):	Tali Digital Ltd
Special responsibilities:	Chair - Audit & Risk Committee Member - Nomination & Remuneration Committee Member - Investment Committee
Interests in shares:	391,561 Fully Paid Ordinary Shares at 30 June 2021 (held indirectly)
Interests in rights:	None

Directors' Report *Continued*
For the year ended 30 June 2021

Name:	Xinzhou Paul Li
Title:	Non-Executive Director (appointed 27 January 2021)
Experience and expertise:	Paul has over 30 years' experience in the pharmaceutical services industry and rich experience in international trade and management. He is also the Founder and Chairman of China Pioneer Pharma Holdings Limited, a company established stable long-term business relations with many world-famous pharmaceutical and medical device enterprises and listed on the main board of the Stock Exchange of Hong Kong Limited.
Other current directorships:	None
Former directorships (last 3 years):	Chair of China Pioneer Pharma Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (stock code HK.01345) Director of Novabay Pharmaceuticals Inc., a company listed on the NYSE (NBY)
Special responsibilities:	Member – Investment Committee
Interests in shares:	50,418,386 Fully Paid Ordinary Shares at 30 June 2021 (held indirectly)
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.

Name:	Ms Melanie Leydin
Title:	Company Secretary
Qualifications:	BBus (Acc. Corp Law) CA FGIA
Experience and expertise:	Melanie Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants, Fellow of the Governance Institute of Australia 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 across a host of industries including but not limited to the Resources, technology, bioscience, biotechnology and health sectors. Melanie has over 25 years' experience in the accounting profession and over 15 years as a Company Secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies 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 2021, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Management Committee		Investment Review Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Shane Tanner	14	14	4	4	-	-	-	-
Geoffrey Sam OAM	13	14	-	-	2	3	2	2
Brent Stewart	14	14	4	4	3	3	2	2
Mark Simari	14	14	4	4	3	3	-	-
Paul Li	6	6	-	-	-	-	-	-
Bruce Bian	1	1	-	-	-	-	2	2

Held: represents the number of meetings held during the time the director held office.

Directors' Report *Continued*

For the year ended 30 June 2021

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 2018. Shareholders approved a maximum annual aggregate remuneration of \$450,000.

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 15.0 cents and a high of 31.5 cents. As at 30 June 2021 the Company's share price (ASX: PGC) was 26.5 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

Shareholders approved the Paragon Care Employee Incentive Plan ('EIP') at the 2018 Annual General Meeting ('AGM').

Directors' Report *Continued*
For the year ended 30 June 2021

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 26 April 2019 include 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 extrapolation will apply between 10% and 15%.

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

The vesting conditions for performance rights granted on 22 February 2021 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price of 30c being achieved in the financial year 2021 calculated on a 14-day VWAP;
- Tranche 2: One third to vest subject to continuous employment and a minimum share price of 40c being achieved in the financial year 2022 calculated on a 14-day VWAP; and
- Tranche 3: One third to vest subject to continuous employment and a minimum share price of 50c being achieved in the financial year 2023 calculated on a 14-day VWAP.

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 will lapse.

Use of remuneration consultants

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

Voting and comments made at the Company's 18 November 2020 Annual General Meeting ('AGM')

At the 18 November 2020 AGM, 95.47% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

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

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

- Shane Tanner - Non-Executive Chairman
- Geoffrey Sam OAM - Non-Executive Director
- Brent Stewart - Non-Executive Director
- Mark Simari - Non-Executive Director
- Paul Li - Non-Executive Director (appointed 27 January 2021)
- Bruce Bian - Non-Executive Director (resigned 20 August 2020)

And the following persons:

- Phil Nicholl - Chief Executive Officer
- Stephen Munday - Chief Financial Officer

Directors' Report *Continued*
For the year ended 30 June 2021

Amounts of remuneration

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

2021	Short-Term Employee Benefits				Post Employment Benefits	Long-Term Benefits	Share-Based Payments	Total
	Cash Salary and Fees	Cash Bonus	Non-Monetary	Termination	Super-annuation	Long Service Leave	Performance Rights	
Name	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Shane Tanner	117,000	-	-	-	-	-	-	117,000
Geoffrey Sam OAM	53,530	-	-	-	5,085	-	-	58,615
Brent Stewart	58,500	-	-	-	-	-	-	58,500
Mark Simari	58,500	-	-	-	-	-	-	58,500
Paul Li*	24,923	-	-	-	2,368	-	-	27,291
Bruce Bian**	6,955	-	-	-	661	-	-	7,616
Other Key Management Personnel								
Phil Nicholl	492,367	157,500	-	-	21,694	-	11,844	683,405
Stephen Munday	302,992	-	-	-	28,784	-	6,497	338,273
Total	1,114,767	157,500	-	-	58,592	-	18,341	1,349,200

* Remuneration is from date of appointment as key management personnel to 30 June 2021.

** Remuneration is from 1 July 2020 to date of resignation as key management personnel.

2020	Short-Term Employee Benefits				Post Employment Benefits	Long-Term Benefits	Share-Based Payments	Total
	Cash Salary and Fees	Non-Monetary	Termination	Super-annuation	Long Service Leave	Performance Rights		
Name	\$	\$	\$	\$	\$	\$	\$	
Non-Executive Directors								
Shane Tanner	111,000	-	-	-	-	-	-	111,000
Geoffrey Sam OAM***	76,016	-	-	7,222	-	-	-	83,238
Brent Stewart	55,500	-	-	-	-	-	-	55,500
Bruce Bian	51,002	-	-	4,845	-	-	-	55,847
Mark Simari*	30,500	-	-	-	-	-	-	30,500
Michael Newton** ***	62,623	20,006	-	5,921	-	-	-	88,550
Executive Directors								
Andrew Just**	207,693	-	444,244	10,501	-	-	-	662,438
Other Key Management Personnel								
Phil Nicholl*	255,875	-	-	10,501	-	-	-	266,376
Stephen Munday*	120,021	-	-	11,279	-	-	-	131,300
Paul Smith**	126,114	-	84,194	10,501	-	-	-	220,809
Total	1,096,344	20,006	528,438	60,770	-	-	-	1,705,558

* Remuneration is from date of appointment as key management personnel to 30 June 2020.

** Remuneration is from 1 July 2019 to date of resignation as key management personnel.

*** Geoffrey Sam OAM and Michael Newton were underpaid in FY19 resulting in a catch-up payment in FY20.

Directors' Report *Continued*
For the year ended 30 June 2021

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

	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
Non-Executive Directors						
Shane Tanner	100%	100%	-	-	-	-
Geoffrey Sam OAM	100%	100%	-	-	-	-
Brent Stewart	100%	100%	-	-	-	-
Mark Simari	100%	100%	-	-	-	-
Paul Li	100%	-	-	-	-	-
Bruce Bian	100%	100%	-	-	-	-
Michael Newton	-	100%	-	-	-	-
Executive Directors						
Andrew Just	-	100%	-	-	-	-
Other Key Management Personnel						
Phil Nicholl	75%	100%	23%	-	2%	-
Stephen Munday	98%	100%	-	-	2%	-
Paul Smith	-	100%	-	-	-	-

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

	Cash bonus paid/payable		Cash bonus forfeited	
	2021	2020	2021	2020
Other Key Management Personnel				
Phil Nicholl	100%	-	-	-

Directors' Report *Continued*
For the year ended 30 June 2021

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, no notice period required for termination
Details:	Base salary including superannuation \$120,000. No termination benefit.
Name:	Geoffrey Sam OAM
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination
Details:	Base salary including superannuation \$60,000. No termination benefit.
Name:	Brent Stewart
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination
Details:	Base salary including superannuation \$60,000. No termination benefit.
Name:	Mark Simari
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination
Details:	Base salary including superannuation \$60,000. No termination benefit.
Name:	Paul Li
Title:	Non-Executive Director
Term of agreement:	No fixed term
Details:	Base salary including superannuation \$60,000. No termination benefit.
Name:	Phil Nicholl
Title:	Chief Executive Officer
Term of agreement:	No fixed term
Details:	Base salary including superannuation \$525,000. No termination benefit.
Name:	Stephen Munday
Title:	Chief Financial Officer
Term of agreement:	No fixed term
Details:	Base salary including superannuation \$336,000. No termination benefit.

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

Directors' Report *Continued*
For the year ended 30 June 2021

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 2021.

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:

Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
22 February 2021	30 June 2021	30 September 2023	\$0.0030
22 February 2021	30 June 2022	30 September 2023	\$0.0030
22 February 2021	30 June 2023	30 September 2023	\$0.0031

* In the event the performance hurdles are not achieved in the year of entitlement but are subsequently achieved (by no later than 30 June 2023), then concerned performance rights will automatically exercise into PGC Shares within a period specified by the Board. The Company will conduct a share price review for each financial year on the 30th June of each year during the vesting period.

Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
Phillip Nicholl	348,012	22 February 2021	30 June 2021	30 September 2023	\$0.0030
	348,012	22 February 2021	30 June 2022	30 September 2023	\$0.0030
	348,011	22 February 2021	30 June 2023	30 September 2023	\$0.0031
Stephen Munday	190,909	22 February 2021	30 June 2021	30 September 2023	\$0.0030
	190,909	22 February 2021	30 June 2022	30 September 2023	\$0.0030
	190,909	22 February 2021	30 June 2023	30 September 2023	\$0.0031

Performance rights granted carry no dividend or voting rights.

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 2021 are set out below:

Name	Grant date	Vesting date	Number of rights granted	Value of rights granted (\$)	Value of rights vested (\$)	Number of rights lapsed	Value of rights lapsed (\$)
Phil Nicholl	22 February 2021	30 June 2021	348,012	10,440	-	-	-
	22 February 2021	30 June 2022	348,012	10,440	-	-	-
	22 February 2021	30 June 2023	348,011	10,788	-	-	-
Stephen Munday	22 February 2021	30 June 2021	190,909	5,727	-	-	-
	22 February 2021	30 June 2022	190,909	5,727	-	-	-
	22 February 2021	30 June 2023	190,909	5,918	-	-	-

Directors' Report *Continued*
For the year ended 30 June 2021

Additional information

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

	2021	2020	2019	2018	2017
Share price at financial year end (cents per share)	26.50	19.00	41.50	82.50	77.00
Total dividends declared (cents per share)	-	-	1.10	4.20	4.10
Basic earnings per share (cents per share)	2.45	(22.87)	(4.49)	5.40	6.20

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
Ordinary shares					
Shane Tanner	850,000	-	150,000	-	1,000,000
Geoffrey Sam OAM	1,736,417	-	228,258	-	1,964,675
Brent Stewart	2,983,466	-	262,868	-	3,246,334
Mark Simari	391,561	-	-	-	391,561
Paul Li*	-	-	50,418,386	-	50,418,386
Bruce Bian**	-	-	-	-	-
Phil Nicholl	1,764,664	-	-	-	1,764,664
Stephen Munday	-	-	-	-	-
	7,726,108	-	51,059,512	-	58,785,620

* Additions represent interest in holding at date of appointment as a key management personnel.

** Disposals/other represent no longer a key management personnel not necessarily a disposal of holding.

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
Performance rights over ordinary shares					
Shane Tanner	-	-	-	-	-
Geoffrey Sam OAM	-	-	-	-	-
Brent Stewart	-	-	-	-	-
Mark Simari	-	-	-	-	-
Paul Li	-	-	-	-	-
Bruce Bian	-	-	-	-	-
Phil Nicholl	-	1,044,035	-	-	1,044,035
Stephen Munday	-	572,727	-	-	572,727
		1,616,762			1,616,762

This concludes the remuneration report, which has been audited.

Directors' Report *Continued*
For the year ended 30 June 2021

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
26 April 2019	30 September 2022	\$0.0000	188,810
22 February 2021	30 September 2023	\$0.0000	6,725,736
			6,914,546

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 2021 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 (including Independence Standards) 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.

Directors' Report *Continued*
For the year ended 30 June 2021

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

A handwritten signature in black ink, appearing to read 'Shane Tanner', is centered on the page.

Shane Tanner
Chairman

27 August 2021
Melbourne

Auditor's Independence Declaration



RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61(0)3 9286 8000

F +61(0)3 9286 8199

www.rsm.com.au

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 2021, 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 AUSTRALIA PARTNERS

M PARAMESWARAN

Partner

Dated: 27 August 2021
Melbourne, Victoria

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RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.
RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation



Financial Statements



Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Revenue from continuing operations			
Sale of goods	5	235,840	231,689
Cost of sales		(145,527)	(144,874)
Gross profit		90,313	86,815
Other income	6	1,490	131
Interest revenue calculated using the effective interest method		18	189
Expenses			
Employee benefits expense	7	(47,226)	(46,678)
Depreciation and amortisation expense	8	(6,200)	(8,053)
Distribution expenses		(6,331)	(4,186)
Marketing expenses		(911)	(3,434)
Occupancy expenses		(1,398)	(1,269)
Other expenses	10	(10,937)	(15,124)
Impairment of goodwill	21	-	(54,235)
Impairment of other assets	9	-	(14,016)
Provision for obsolescence of inventory - change in accounting estimates	16	-	(5,702)
Fair value gain/(loss) on derivative liability	25	1,525	(4,577)
Finance costs	11	(8,012)	(7,064)
Profit/(loss) before income tax (expense)/benefit from continuing operations		12,331	(77,203)
Income tax (expense)/benefit	12	(4,052)	5,603
Profit/(loss) after income tax (expense)/benefit from continuing operations		8,279	(71,600)
Loss after income tax benefit from discontinued operations	13	-	(5,669)
Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Paragon Care Limited		8,279	(77,269)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges transferred to profit or loss, net of tax		1,085	(998)
Foreign currency translation		(196)	(1,768)
Other comprehensive income for the year, net of tax		889	(2,766)
Total comprehensive income for the year attributable to the owners of Paragon Care Limited		9,168	(80,035)
Total comprehensive income for the year is attributable to:			
Continuing operations		9,168	(73,221)
Discontinued operations		-	(6,814)
		9,168	(80,835)

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Note	2021 cents	2020 cents
Earnings per share for profit from continuing operations attributable to the owners of Paragon Care Limited			
Basic earnings per share	41	2.45	(21.19)
Diluted earnings per share	41	2.40	(21.19)
Earnings per share for loss from discontinued operations attributable to the owners of Paragon Care Limited			
Basic earnings per share	41	-	(1.68)
Diluted earnings per share	41	-	(1.68)
Earnings per share for profit/(loss) attributable to the owners of Paragon Care Limited			
Basic earnings per share	41	2.45	(22.87)
Diluted earnings per share	41	2.40	(22.87)

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

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	14	33,197	24,505
Trade and other receivables	15	26,201	31,574
Inventories	16	51,578	46,662
Income tax refund due	12	407	70
Other assets	17	1,413	1,694
Financial derivative asset	25	416	-
		113,212	104,505
Non-current assets classified as held for sale	18	-	1,800
Total current assets		113,212	106,305
Non-Current Assets			
Property, plant and equipment	19	7,464	7,184
Right-of-use assets	20	9,032	14,265
Intangibles	21	151,374	149,660
Deferred tax	12	10,838	14,757
Total non-current assets		178,708	185,866
Total assets		291,920	292,171
Liabilities			
Current liabilities			
Trade and other payables	22	36,100	26,921
Borrowings	23	21,794	16,767
Lease liabilities	24	3,648	3,722
Derivative financial instruments	25	3,047	5,711
Employee benefits		4,901	4,572
Vendor conditional payables	26	-	15,331
Other liabilities	27	12,720	11,853
Total current liabilities		82,210	84,877
Non-current liabilities			
Borrowings	23	80,471	82,159
Lease liabilities	24	7,098	12,380
Employee benefits		623	474
Total non-current liabilities		88,192	95,013
Total Liabilities		170,402	179,890
Net Assets		121,518	112,281
Equity			
Issued capital	28	113,952	202,718
Reserves	29	7,566	(1,671)
Retained earnings (Accumulated losses)		-	(88,766)
Total Equity		121,518	112,281

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

Consolidated statement of changes in equity

For the year ended 30 June 2021

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2019	202,718	1,095	(11,497)	192,316
Loss after income tax expense for the year	-	-	(77,269)	(77,269)
Other comprehensive income for the year, net of tax	-	(2,766)	-	(2,766)
Total comprehensive income for the year	-	(2,766)	(77,269)	(80,035)
Balance at 30 June 2020	202,718	(1,671)	(88,766)	112,281

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2020	202,718	(1,671)	(88,766)	112,281
Profit after income tax expense for the year	-	-	8,279	8,279
Other comprehensive income for the year, net of tax	-	889	-	889
Total comprehensive income for the year	-	889	8,279	9,168
Transfer to dividend reserve	-	8,279	(8,279)	-
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 42)	-	69	-	69
Capital reduction (note 28)	(88,766)	-	88,766	-
Balance at 30 June 2021	113,952	7,566	-	121,518

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		264,516	265,178
Payments to suppliers and employees (inclusive of GST)		(232,509)	(260,020)
Government assistance received (JobKeeper subsidy)		2,985	998
Other income		1,413	-
Interest received		18	189
Interest and other finance costs paid		(8,012)	(6,107)
Income taxes refunded /(paid)		(948)	5,049
Net cash from operating activities	40	27,463	5,287
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired		-	(4,224)
Payment for vendor earn out of prior business acquisitions		(15,331)	-
Payments for property, plant and equipment		(3,327)	(2,315)
Payments for intangibles		(1,959)	(4,951)
Payments for security deposits		(134)	(33)
Proceeds from disposal of investments		-	22
Proceeds from disposal of property, plant and equipment		1,948	-
Net cash used in investing activities		(18,803)	(11,403)
Cash flows from financing activities			
Proceeds from borrowings (net)		4,140	6,076
Repayment of borrowings (net)		(801)	(5,925)
Repayment of lease liabilities		(3,307)	(3,754)
Net cash used in financing activities		32	(3,603)
Net increase/(decrease) in cash and cash equivalents		8,692	(9,719)
Cash and cash equivalents at the beginning of the financial year		24,505	34,224
Cash and cash equivalents at the end of the financial year	14	33,197	24,505

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

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2021

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 are:

Registered office	Principal place of business
Level 4	Waterman Business Centres
96-100 Albert Road	Suite 46, 44 Lakeview Drive
South Melbourne VIC 3205	Scoresby VIC 3179

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 27 August 2021. 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 adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Change in expense classification

During the year, the Group modified the classification of certain expenses to reflect the financial performance of the Group more appropriately. Comparative amounts in the statement of profit or loss and other comprehensive income have been restated for consistency.

The effect on the comparative expenses in the statement of profit or loss and other comprehensive income for the modification are as follows:

Year ended 30 June 2020	Current classification	Previous classification	Change
	\$'000	\$'000	\$'000
Employee benefits expense	46,678	-	46,678
Depreciation and amortisation expense	8,053	-	8,053
Distribution expenses	4,186	3,500	686
Marketing expenses	3,434	1,710	1,724
Occupancy expenses	1,269	2,010	(741)
Other expenses	15,124	-	15,124
Administration	-	70,584	(70,584)
Allowance for expected credit losses	-	940	(940)
Loss after tax for the year attributable to owners	78,744	78,744	-

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 2. Significant accounting policies (continued)

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.

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 2021 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.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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.

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.

Notes to and forming part of the Financial Statements *Continued*

For the year ended 30 June 2021

NOTE 2. Significant accounting policies (continued)

Other revenue

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

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. are intended to compensate.

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.

Paragon Care Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current

tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

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.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 2. Significant accounting policies (continued)

Stock in transit 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.

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.

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.

Interest rate swaps

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Property, plant and equipment

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

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

Leasehold improvements 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

Notes to and forming part of the Financial Statements *Continued*

For the year ended 30 June 2021

NOTE 2. Significant accounting policies (continued)

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

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.

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.

Research and development ('R&D') projects

Research costs are expensed in the period they are incurred. Development expenditure is capitalised only when incurred and when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. 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.

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.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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.

Share-based payments

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 2. Significant accounting policies (continued)

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.

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.

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

Notes to and forming part of the Financial Statements *Continued*

For the year ended 30 June 2021

NOTE 2. Significant accounting policies (continued)

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.

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 2021. 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.

AASB 2020-1 Amendments to Australian Accounting Standards – Classifications of Liabilities as Current or Non-Current

The amendments are applicable to annual reporting periods beginning on or after 1 January 2022 and early adoption is permitted. This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current.

For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified. At this time, the application of the amendments is not expected to have a material impact on the Group.

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

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

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.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 5. Revenue

Disaggregation of revenue

The disaggregation of revenue from contracts with customers, in respect of continuing operations, is as follows:

	2021	2020
	\$'000	\$'000
Major product lines		
Devices Product Line	85,847	74,962
Diagnostic Product line	25,864	23,228
Capital and Consumables Product Line	105,175	105,755
Services and Technology	18,954	27,744
	235,840	231,689
Geographical regions		
Australia	187,028	188,528
New Zealand	47,481	41,527
Other	1,331	1,635
	235,840	231,689
Timing of revenue recognition		
Goods transferred at a point in time	216,886	203,945
Services transferred over time	18,954	27,744
	235,840	231,689

NOTE 6. Other Income

	2021	2020
	\$'000	\$'000
Rental income	80	-
Rent concessions arising from COVID-19	-	131
Other income	1,410	-
Other income	1,490	131

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 7. Employee benefits expense

	2021	2020
	\$'000	\$'000
Payroll costs	47,591	46,577
Defined contributions superannuation expense	3,041	3,082
Share-based payments expense	69	-
JobKeeper subsidy	(3,475)	(2,981)
Total employee benefits expense	47,226	46,678

Share-based payments expense

On 22 February 2021, the company granted 6,725,736 Performance Rights ('PRs') to members of the leadership team for nil consideration. These PRs have been granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. The PRs vest in three tranches and are dependent upon achievement of market conditions over the vesting period.

The fair value of the PRs is determined using the Binomial option pricing model that takes into account among other things, the exercise price, the term of the PR, 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 PR.

The share-based payments expense recognised for the year ended 30 June 2021 is \$69,000 (30 June 2020: \$nil).

JobKeeper subsidy

During the COVID-19 pandemic, the Group has received JobKeeper support payments from the Australian Government which are passed on to eligible employees. These have been recognised as a reduction in employee benefits expense in the financial statements. The JobKeeper payment scheme ran for the fortnights from 30 March 2020 until 27 September 2020. The Group was eligible for JobKeeper support from the government on the condition that employee benefits continue to be paid.

NOTE 8. Depreciation and amortisation expense

	2021	2020
	\$'000	\$'000
Depreciation - Land and buildings	-	34
Depreciation - Leasehold improvements	76	224
Depreciation - Plant and equipment	2,715	3,029
Depreciation - Motor vehicles	108	87
Depreciation - Buildings right-of-use assets	3,056	3,998
Amortisation - Website	21	73
Amortisation - Contracts	-	393
Amortisation - Software development costs	224	199
Amortisation - R&D Projects (under construction)	-	16
	6,200	8,053

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 9. Impairment of other assets

	2021	2020
	\$'000	\$'000
Sundry debtors	-	1,230
Buildings (note 19)	-	311
Leasehold improvements (note 19)	-	1,174
Plant and equipment (note 19)	-	1,528
Land and buildings - right-of-use (note 20)	-	1,300
Contracts (note 21)	-	1,469
Software development costs (note 21)	-	6,129
R&D projects (under construction) (note 21)	-	875
	-	14,016

During the prior year the Group had undertaken a restructure of its business operations. This led to the rationalisation of sites across Australia necessitating the impairment of building, leasehold, plant and equipment and right-of-use assets associated with those sites that have been closed or were in the process of being closed. In addition the Group had undertaken a review of historical software development and research and development and identified, closed and impaired the non-strategic projects undertaken during the past few years which it no longer believed will produce economic benefits in the future. The Group identified the costs associated with the ERP system implemented over the last two years required a write off and required a complete re-implementation.

NOTE 10. Other expenses

	2021	2020
	\$'000	\$'000
Management consulting fees	2,355	2,860
Professional fees	1,536	1,625
Information technology	3,239	2,843
Travel costs	1,222	2,910
Allowance for expected credit losses	358	940
Net (gain)/loss on sale of assets	(8)	117
Net foreign exchange loss	149	295
Other corporate costs	2,090	3,534
	10,941	15,124

NOTE 11. Finance costs

	2021	2020
	\$'000	\$'000
Interest and finance charges paid/payable on borrowings	5,142	4,783
Loan facility fees and ancillary costs expensed	2,033	826
Interest and finance charges paid/payable on lease liabilities	837	1,455
	8,012	7,064

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 12. Income tax

	2021	2020
	\$'000	\$'000
<i>Income tax expense/(benefit)</i>		
Current tax	612	607
Deferred tax - origination and reversal of temporary differences	3,718	(7,922)
Adjustment recognised for prior periods	(278)	567
Aggregate income tax expense/(benefit)	4,052	(6,748)
Income tax benefit is attributable to:		
Profit/(loss) from continuing operations	4,052	(5,603)
Loss from discontinued operations	-	(1,145)
Aggregate income tax expense/(benefit)	4,052	(6,748)
Deferred tax included in income tax expense/(benefit) comprises:	3,718	(7,922)
Decrease/(increase) in deferred tax assets		
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Profit/(loss) before income tax (expense)/benefit from continuing operations	12,331	(77,203)
Loss before income tax benefit from discontinued operations	-	(6,814)
	12,331	(84,017)
Tax at the statutory tax rate of 30%	3,699	(25,205)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	-	17,170
Non-deductible costs	631	720
	4,330	(7,315)
Adjustment recognised for prior periods	(278)	567
Income tax expense/(benefit)	4,052	(6,748)
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets	478	(10)
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Unrecognised tax capital losses	-	4,764
Total deferred tax assets not recognised	-	4,764

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 12. Income tax (continued)

	2021	2020
	\$'000	\$'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	1,245	5,148
Property, plant and equipment	(17)	112
Employee benefits	1,912	1,697
Accrued expenses	1,409	628
Right of use asset/lease liability	355	513
Derivative liabilities/assets	914	1,374
Inventories	3,352	3,466
Prepayments	555	-
Borrowing costs	81	-
Trade and other receivables	212	-
Foreign exchange gains/(losses)	168	(82)
Other assets	66	295
Non-deductible capital expenditure	724	1,266
	10,976	14,417
Amounts recognised in equity:		
Derivative financial instruments	(138)	340
Deferred tax asset	10,838	14,757
Movements:		
Opening balance	14,757	7,392
Credited/(charged) to profit or loss	(3,718)	7,922
Credited/(charged) to equity	(478)	10
Unders/overs	277	(567)
Closing balance	10,838	14,757
Income tax refund due		
Income tax refund due	407	70

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 13. Discontinued operations

2020

In reviewing the operations of the MIDAS software business during the year, the board concluded that with fewer than 10 customers and requiring significantly more development than initially planned at acquisition, the MIDAS software is unlikely to result in sufficient returns to justify continued investment. The closure of MIDAS business has been progressively undertaken since late in the financial year. The total cost of closure will be \$6.5 million and has been provided for in this financial year, this and the FY20 operating loss of \$0.3 million less an income tax benefit of \$1.1 million has been classified as a loss after tax from discontinued operations this year of \$5.7 million.

Financial performance information

	2021	2020
	\$'000	\$'000
Sale of goods	-	84
Cost of sales	-	(6)
Gross profit	-	78
Employee benefits expense	-	(360)
Depreciation and amortisation expense	-	(3)
Impairment	-	(6,177)
Occupancy expenses	-	(21)
Other expenses	-	(331)
Total expenses	-	(6,892)
Loss before income tax benefit	-	(6,814)
Income tax benefit	-	1,145
Loss after income tax benefit from discontinued operations	-	(5,669)

NOTE 14. Cash and cash equivalents

	2021	2020
	\$'000	\$'000
Current assets		
Cash at bank and on hand	33,197	24,505
	33,197	24,505

NOTE 15. Trade and other receivables

	2021	2020
	\$'000	\$'000
Current assets		
Trade receivables	26,659	30,308
Less: Allowance for expected credit losses	(708)	(940)
Total assets	25,951	29,368
Other receivables	250	2,206
	26,201	31,574

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 15. Trade and other receivables (continued)

Allowance for expected credit losses

The Group has recognised a loss of \$33,000 (30 June 2020: \$940,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2021. The Group does not believe that the recovery of its trade receivables will be materially impacted by COVID-19. The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, pursuant to the COVID-19 pandemic.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit loss rate	
	2021	2020	2021	2020	2021	2020
	%	%	\$'000	\$'000	\$'000	\$'000
Not overdue	-	-	24,004	25,122	-	-
0 to 3 months overdue	17%	8%	2,046	4,071	354	345
3 to 6 months overdue	37%	29%	406	690	151	198
Over 6 months overdue	100%	93%	203	425	203	397
			26,659	30,308	708	940

Movements in the allowance for expected credit losses are as follows:

	2021	2020
	\$'000	\$'000
Opening balance	940	-
Additional provisions recognised	33	940
Bad debt written off against provision	(265)	-
Closing balance	708	940

NOTE 16. Inventories

	2021	2020
	\$'000	\$'000
Raw materials - at a cost	1,414	950
Finished goods - at cost	56,787	55,563
Stock in transit - at cost	4,540	1,704
Less: Provision for impairment	(11,163)	(11,555)
	51,578	46,662

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 16. Inventories (continued)

Provision for impairment

The movement in provision for impairment, for the current and previous financial year, is as follows:

	2021	2020
	\$'000	\$'000
Balance at the start of the financial year	(11,555)	(4,749)
Increase in provision during the year	(3,175)	(1,104)
Increase in provision due to change in accounting estimates	-	(5,702)
Inventory written off against provision	3,567	-
Balance at the end of the financial year	(11,163)	(11,555)

During the 2020 financial year the Group made a change to accounting estimates in relation to inventory obsolescence policy to match a change to inventory provisioning policy. The Company has increased the allowance for obsolescence for most inventory held in excess of 9 months sales to 100% as well as writing off all inventory of product lines identified for rationalisation as a result of an inventory review undertaken as part of the Company's ongoing restructure and as a result of the impacts of COVID-19. The policy now matches the Company's new strategy of lean and agile sales and operations planning to reduce inventory holdings and warehouse space.

Prior to the 2020 financial year, the Group previously provided for obsolescence in relation to inventory with no sales history ranging from 2 years up until 4 years at percentages ranging from 20% to 40%.

NOTE 17. Other assets

	2021	2020
	\$'000	\$'000
Current assets		
Prepayments	1,279	1,694
Security deposits	134	-
	1,413	1,694

NOTE 18. Non-current assets classified as held for sale

	2021	2020
	\$'000	\$'000
Current assets		
Land and buildings	-	1,800
	-	1,800

The land and buildings situated at 19-21 Peninsula Boulevard, Seaford VIC was sold on the 3 August 2020.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 19. Property, plant and equipment

	2021	2020
	\$'000	\$'000
Non-current assets		
Leasehold improvements - at cost	3,488	4,365
Less: Accumulated depreciation	(959)	(883)
Less: Impairment	-	(1,174)
	2,529	2,308
Plant and equipment - at cost	29,104	27,683
Less: Accumulated depreciation	(24,270)	(21,555)
Less: Impairment	-	(1,528)
	4,834	4,600
Motor vehicles - at cost	1,174	1,241
Less: Accumulated depreciation	(1,073)	(965)
	101	276
	7,464	7,184

Reconciliations

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

	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	2,145	3,335	7,213	363	13,056
Additions	-	371	1,944	-	2,315
Classified as held for sale (note 18)	(1,800)	-	-	-	(1,800)
Impairment of assets (note 8)	(311)	(1,174)	(1,528)	-	(3,013)
Depreciation expense	(34)	(224)	(3,029)	(87)	(3,374)
Balance at 30 June 2020	-	2,308	4,600	276	7,184
Additions	-	297	3,031	-	3,328
Disposals	-	-	(82)	(67)	(149)
Depreciation expense	-	(76)	(2,715)	(108)	(2,899)
Balance at 30 June 2021	-	2,529	4,834	101	7,464

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 20. Right-of-use assets

	2021	2020
	\$'000	\$'000
Non-current assets		
Land and buildings - right-of-use	19,052	21,953
Less: Accumulated depreciation	(10,020)	(7,688)
	9,032	14,265

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:

	Land and buildings - right-of-use
	\$'000
Balance at 1 July 2019	20,923
Additions	1,640
Reductions due to lease modifications	(3,000)
Impairment of assets (note 9)	(1,300)
Depreciation expense	(3,998)
Balance at 30 June 2020	14,265
Additions	1,127
Reductions due to lease modifications	(3,304)
Depreciation expense	(3,056)
Balance at 30 June 2021	9,032

For other AASB 16 and lease related disclosures, refer to the following:

- Refer note 11 for details of interest on lease liabilities and other lease payments;
- Refer note 24 for lease liabilities and maturity analysis at 30 June 2021; and
- Refer consolidated statement of cash flows for repayment of lease liabilities.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 21. Intangibles

	2021	2020
	\$'000	\$'000
Non-current assets		
Goodwill - at cost	221,700	221,700
Less: Impairment	(72,699)	(72,699)
	149,001	149,001
Website - at cost	329	329
Less: Accumulated amortisation	(145)	(124)
	184	205
Contracts - at cost	-	2,613
Less: Accumulated amortisation	-	(1,144)
Less: Impairment	-	(1,469)
	-	-
Software development costs - at cost	5,345	11,876
Less: Accumulated amortisation	(3,182)	(2,958)
Less: Impairment	-	(8,464)
	2,163	454
R&D Projects (under construction) - at cost	212	1,061
Less: Accumulated amortisation	(186)	(186)
Less: Impairment	-	(875)
	26	-
	151,374	149,660

Reconciliations

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

	Goodwill	Website	Contracts	Software development costs	R&D Projects (under construction)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2019	196,184	278	1,742	5,876	241	204,321
Additions	-	-	120	4,180	650	4,950
Acquisition accounting	9,433	-	-	-	-	9,433
Disposals	-	-	-	(98)	-	(98)
Exchange differences	619	-	-	-	-	619
Impairment of assets - discontinued operations	(3,000)	-	-	(3,177)	-	(6,177)
Impairment of assets	(54,235)	-	(1,469)	(6,128)	(875)	(62,707)
Amortisation expense	-	(73)	(393)	(199)	(16)	(681)
Balance at 30 June 2020	149,001	205	-	454	-	149,660
Additions	-	-	-	1,933	26	1,959
Acquisition accounting	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Impairment of assets (note 8)	-	-	-	-	-	-
Amortisation expense	-	(21)	-	(224)	-	(245)
Balance at 30 June 2021	149,001	184	-	2,163	26	151,374

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 21. 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.

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 2 year projection period approved by management and extrapolated for a further 3 years using a steady rate, together with a terminal value. Based on the discounted cash projections, the Company has anticipated positive operating cash flows generating a net present value \$67 million more than the current book value as at 30 June 2021.

Management believes the projected 4% revenue growth rate beyond the first 2 years is prudent and justified, based on the general slowing in the market. Discount rates applied to the future cashflows from the business have been reduced from 30 June 2020 following the increase on 2019 due to the increased general business risk associated with the economic downturn being experienced across the economy at that time due to COVID. The pre-tax discount rate of 12.5% has been used (14.6% in 2020) reflecting the decreased general business risk.

Key assumptions used for the discounted cash flow projections:

	Rate
	%
Revenue growth rate beyond first 2 years	4.00%
Pre-tax discount rate	12.5%
Terminal growth rate	1.25%

Sensitivity

As disclosed in note 3, the directors have made judgements and estimates in respect of impairment testing of goodwill. The calculations for discounted cashflow valuation of the business on the value in use of the business were subject to sensitivity testing. This testing included a test case for 5% lower sales which resulted in an operating cash flow generating a net present value of \$205.8 million, \$13.7million more than the current book value and a test case for 5% higher Operating Expenses which resulted in an operating cash flow generating a net present value of \$221.2 million, \$29.2 million more than the carrying value.

All things being equal, either the revenue growth rate would need to drop from 4% to 2.64% or the pre-tax discount rate would need to increase from 12.5% to 16.2% for the recoverable amount to equal the carrying amount.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 22. Trade and other payables

	2021	2020
	\$'000	\$'000
Current liabilities		
Trade payables	30,216	20,900
Goods and services tax payable	1,118	1,351
Other payables	4,766	4,670
	36,100	26,921

Refer to note 31 for further information on financial instruments.

NOTE 23. Borrowings

	2021	2020
	\$'000	\$'000
Current liabilities		
Bank loans	6,000	4,500
Trade finance facility	15,587	11,447
Hire purchase	207	820
	21,794	16,767
Non-current liabilities		
Bank loans	80,397	81,897
Hire purchase	74	262
	80,471	82,159

Refer to note 31 for further information on financial instruments.

Assets pledged as security

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.

On 26 August 2020, the Group received approval from its bankers for an amendment to its banking facilities. This has resulted in a relaxation of the Group's obligation to comply with the existing facility covenants through to September 2021. In May 2021, Paragon Care announced that the Company's banking facilities were successfully renegotiated with NAB. The new 3-year banking contract extends to July 2024 and the new covenants were designed to support the future growth of the business.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 23. Borrowings (continued)

Financing arrangements

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

	2021	2020
	\$'000	\$'000
Total facilities		
Bank loans	86,575	98,075
Trade finance facility	28,500	15,000
Bank guarantees and others	2,800	2,599
	117,875	115,674
Used at the reporting date		
Bank loans	86,397	86,397
Trade finance facility	15,587	11,447
Bank guarantees and others	1,309	1,344
	103,293	99,188
Unused at the reporting date		
Bank loans	178	11,678
Trade finance facility	12,913	3,553
Bank guarantees and others	1,491	1,255
	14,582	16,486

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 24. Current liabilities - lease liabilities

	2021	2020
	\$'000	\$'000
Current liabilities		
Lease liability	3,648	3,722
Non-current liabilities		
Lease liability	7,098	12,380

The maturity analysis for lease liabilities is as follows:

	2021	2020
	\$'000	\$'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	4,122	3,894
One to five years	5,824	9,217
More than five years	1,380	5,265
Total undiscounted lease liabilities at 30 June	11,326	18,376
Lease liabilities included in the statement of financial position		
Lease liabilities included in the statement of financial position at 30 June	10,746	16,102

NOTE 25. Derivative financial instruments

	2021	2020
	\$'000	\$'000
Current Asset		
Forward foreign exchange contracts - cash flow hedges	416	-
	416	-
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	-	1,134
Interest rate swap contracts - derivative liability	3,047	4,577
	3,047	5,711

Refer to note 31 for further information on financial instruments.
Refer to note 32 for further information on fair value measurement.

NOTE 26. Vendor conditional payables

	2021	2020
	\$'000	\$'000
Current liabilities		
Vendor conditional payables	-	15,331
	-	15,331

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 26. Vendor conditional payables (continued)

Summary of vendor earnout is as follows:

	2021	2020
	\$'000	\$'000
Vendor payable from acquisitions during the year	-	-
Vendor payable from prior period acquisitions	-	15,331
	-	15,331

Payments of \$15,331,000 were made in the year in satisfaction of the conditional payables.

NOTE 27. Other liabilities

	2020	2020
	\$'000	\$'000
<i>Current liabilities</i>		
Accrued expenses	11,719	10,146
Deferred revenue	1,001	1,707
	12,720	11,853

NOTE 28. Issued capital

	2021	2020	2021	2020
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	337,885,292	337,885,292	113,952	202,718

Movements in ordinary share capital

	Date	Shares	\$'000
Balance	1 July 2019	337,885,292	202,718
Balance	30 June 2020	337,885,292	202,718
Capital reduction under section 258F(1) of the Corporations Act	31 May 2021	-	(88,766)
Balance	30 June 2021	337,885,292	113,952

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.

Capital Reduction

The Board has resolved to reduce Paragon Care's share capital by \$88,766,000 in accordance with Section 258F of the Corporations Act. The capital reduction will have the effect of reducing the share capital account and reducing Paragon Care's accumulated accounting losses. This is a technical adjustment which does not require shareholder approval and allows the Company to pay future franked dividends. The capital reduction has no impact on Paragon Care's assets, net assets, financial results, cash flow or funding or that of the Paragon Care Group. The number of shares on issue will not change as a result of the capital reduction.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 28. Issued capital (continued)

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.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

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:

	Note	2021 \$'000	2020 \$'000
Current liabilities - borrowings	23	21,794	16,767
Non-current liabilities - borrowings	23	80,471	82,159
Total borrowings		102,265	98,926
Current assets - cash and cash equivalents	14	(33,197)	(24,505)
Net debt		69,068	74,421
Total equity		121,518	112,281
Total capital		190,586	186,702
Gearing ratio		36%	40%

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

NOTE 29. Reserves

	2021 \$'000	2020 \$'000
Foreign currency translation reserve	(1,073)	(877)
Hedging reserve - cash flow hedges	291	(794)
Options reserve	69	-
Dividend Reserve	8,279	-
	7,566	(1,671)

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.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 29. Reserves (continued)

Option reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Dividend reserve

At 31 December 2020, the Company created a Dividend reserve to transfer profits generated during this half year and in future periods to ensure profits are available for distribution to shareholders in future years rather than being offset against accumulated losses.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Foreign currency translation reserve	Hedging reserve - cash flow hedges	Option reserve	Dividend reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	891	204	-	-	1,095
Foreign currency translation	(1,768)	-	-	-	(1,768)
Net investment hedge	-	(998)	-	-	(998)
Balance at 30 June 2020	(877)	(794)	-	-	(1,671)
Deferred tax	-	138	-	-	138
Foreign currency translation	(196)	-	-	-	(196)
Net investment hedge	-	947	-	-	947
Share-based payments	-	-	69	-	69
Transfer of profit from retained earnings	-	-	-	8,279	8,279
Balance at 30 June 2021	(1,073)	291	69	8,279	7,566

NOTE 30. Dividends

Dividends

There were no dividends paid or declared during the current or previous financial year. Subsequent to year end, in keeping with directors confidence in Paragon Care, the directors have declared the payment of a fully franked final dividend of \$3,378,853 (1 cents per fully paid ordinary share) to be paid on 1st of October 2021 in respect of the financial year ended 30 June 2021. The dividend payment will be fully underwritten by Taylor Collison Limited and therefore not impact the company's cash or net debt position.

Franking credits

	2021	2020
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	17,703	16,521
	17,703	16,521

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

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.

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 20% and 100% of anticipated foreign currency transactions for the subsequent 24 months.

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

	2021	2020
	\$'000	\$'000
Forward exchange contracts		
Buy foreign currency (cash flow hedges):		
AUD to USD	18,935	16,786
AUD to Euro	12,851	11,840
NZD to USD	10,645	10,471
NZD to Euro	503	455
	42,934	39,552

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. In order to mitigate the risk of variable interest rates, the Group has entered into an interest rate swap arrangement with the bank for loans outstanding of \$71,000,000 as at 30 June 2021.

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

	2021	2020
	\$'000	\$'000
Financial assets		
Cash and cash equivalents (interest bearing)	33,197	24,505
Financial liabilities		
Interest bearing liabilities - variable rate (current)	(21,587)	(15,947)
Interest bearing liabilities - fixed rate (current)	(207)	(820)
Interest bearing liabilities - variable rate (non-current)	(9,397)	(6,897)
Interest bearing liabilities - fixed rate (non-current)	(71,074)	(75,262)
Derivative liability	(3,047)	(4,577)
	(105,313)	(103,503)

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 31. Financial instruments (continued)

For the Group bank loans outstanding, totalling \$102,266,000 (2020: \$98,926,039), are principal and interest payment loans. Of this, \$71,000,000 (2020: \$75,000,000) is managed under an interest rate swap arrangement, whereby the Group exchanges the banks floating rate (BBSYbid rate+spread) for a fixed interest rate of 2.22%. The Group has bank loans outstanding subject to variable interest rates of \$30,984,000 (2020: \$22,844,333). Monthly cash outlays of approximately \$391,542 (2020: \$396,890) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (2020: 100) basis points would have an adverse/favourable effect on profit before tax of \$309,840 (2020: \$228,443) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of \$6,000,000 (2020: \$4,500,000) are due during the year ending 30 June 2022 (2020: 30 June 2021).

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:

	2021	2020
	\$'000	\$'000
Bank loans	178	11,678
Trade finance facility	12,913	3,553
Bank guarantees and others	1,491	1,255
	14,582	16,486

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its non-derivative 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.

Group 2021	Weighted average interest rate %	Less than 6 months \$'000	Between 6 to 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 6 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
Non-interest bearing	-	36,098	-	-	-	36,098
Interest-bearing - variable	3.19%	20,072	1,500	7,000	2,397	30,969
Interest-bearing - fixed rate	5.25%	104	104	74	71,000	71,282
Total non-derivatives	-	56,274	1,604	7,074	73,397	138,349
Derivatives						
Interest rate swap contracts	-	-	3,047	-	-	3,047
Total derivatives	-	-	3,047	-	-	3,047

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 31. Financial instruments (continued)

Group 2020	Weighted average interest rate %	Less than 6 months \$'000	Between 6 to 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 6 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
Non-interest bearing	-	26,921	15,331	-	-	42,252
Interest-bearing - variable	2.74%	12,947	3,000	6,897	-	22,844
Interest-bearing - fixed rate	4.00%	410	410	262	75,000	76,082
Total non-derivatives	-	40,278	18,741	7,159	75,000	141,178
Derivatives						
Forward foreign exchange contracts	-	870	236	28	-	1,134
Interest rate swap contracts	-	-	4,577	-	-	4,577
Total derivatives	-	870	4,813	28	-	5,711

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

Group 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Forward foreign exchange contract - cashflow hedges	-	416	-	416
Total Assets	-	416	-	416

Group 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Liabilities				
Interest rate swap contracts - derivative liability	-	(3,047)	-	(3,047)
Total liabilities	-	(3,047)	-	(3,047)

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 32. Fair value measurement (continued)

Group 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Forward foreign exchange contracts - cash flow hedges	-	(1,134)	-	(1,134)
Interest rate swap contracts - derivative liability	-	(4,577)	-	(4,577)
Vendor conditional payable	-	-	(15,331)	(15,331)
Total liabilities	-	(5,711)	(15,331)	(21,042)

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

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.

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:

	Vendor conditional payable \$'000
Balance at 1 July 2019	(9,673)
Additions	(9,183)
Disposals	3,525
Balance at 30 June 2020	(15,331)
Additions during the year	-
Payments during the year	15,331
Balance at 30 June 2021	-

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:

	2021 \$	2020 \$
Short-term employee benefits	1,272,267	1,116,350
Termination benefits	-	528,438
Post-employment benefits	58,592	60,770
Share-based payment	18,341	-
Total	1,349,200	1,705,558

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 34. Remuneration of auditors

	2021	2020
	\$	\$
Audit services - RSM Australia Partners		
Audit or review of the financial statements	186,500	216,000
Other services - RSM Australia Partners		
Tax compliance services	115,430	67,675
Other services	83,520	33,400
	198,950	101,075
	385,450	317,075
Audit services - network firms		
Audit or review of the financial statements	28,500	48,615
Other services - network firms		
Tax compliance services	-	12,165
	28,500	60,780

NOTE 35. Contingent liabilities / assets / commitments

The Group has given bank guarantees as at 30 June 2021 of \$1,467,196 (30 June 2020: \$5,004,123).

Legal proceedings

The Company's legal proceedings were settled on 7 December 2020. The litigation was settled through mediation with the Defendants and their legal representatives. The details of the mediation and the outcome of the settlement terms are confidential and privileged. The Company will not be commenting further in relation to them.

There were no contingent assets as at 30 June 2021 and 30 June 2020.

There were no capital commitments as at 30 June 2021 and 30 June 2020.

NOTE 36. Related party transactions

Parent entity

Paragon Care Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 38.

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

Mark Simari, director, is a shareholder and director of Charkaroo Pty Ltd which is a corporate authorised representative under Sequoia Wealth Management Pty Limited's AFSL. Through that relationship Mark has an interest in a corporate advisory mandate in place between the company and Charkaroo Pty Ltd under Sequoia's licence. Charkaroo Pty Ltd is entitled to 42.5% of fees charged by Sequoia to Paragon Care, total fees charged by Sequoia during the financial year were \$148,500 (30 June 2020: \$90,000) of which Charkaroo was entitled to \$63,113 (30 June 2020: \$38,250).

Mark Simari, director, is a shareholder of Akita Consulting. Akita Consulting are contracted to provide consultancy services for potential business opportunities that arise from time to time. There were no transactions or balances payable with this business during the current or prior financial year.

Brent Stewart, director, was a director of Brent Michael Stewart and Michelle Jane Stewart ATF the Brent Stewart Superannuation Fund, when it received \$1,365,178 (2020: \$1,193,894) during the financial year for Surgical Specialties Pty Ltd earn out payment.

Geoff Sam, director, is a director for HealtheCare Surgical. HealtheCare is a client of the group, purchasing \$3,187,809 (2020:\$3,278,137) of products during the year.

Receivable from and payable to related parties

Geoff Sam, director, is a director for HealtheCare Surgical. At 30 June 2021 HealtheCare owes the Group \$412,072 (2020:\$532,313).

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 36. Related party transactions (continued)

Loans to/from related parties

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

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

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

	2021	2020
	\$'000	\$'000
Profit/(loss) after income tax	(3,387)	(3,536)
Total comprehensive income	(3,387)	(3,536)

Statement of financial position

	2021	2020
	\$'000	\$'000
Total current assets	615	3,531
Total assets	154,845	157,810
Total current liabilities	2,274	715
Total liabilities	4,813	716
Equity		
Issued capital	113,952	202,530
Hedging reserve - cash flow hedges	(546)	(546)
Options reserve	69	-
Accumulated losses	36,557	(44,890)
Total equity	150,032	157,094

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 2021 and 30 June 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 38. 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 / Country of incorporation	Ownership 2021 (%)	Ownership 2020 (%)
Paragon Care Group New Zealand Management Services Ltd	New Zealand	100%	100%
Paragon Care Group New Zealand Ltd	New Zealand	100%	100%
Paragon Care Group Management Services Pty Ltd	Australia	100%	100%
Paragon Care Group Australia Pty Ltd	Australia	100%	100%
Paragon Care Group Holding Company Pty Ltd	Australia	100%	100%
Medtek Pty Ltd*	Australia	100%	100%
Paragon Medical Ltd*	New Zealand	100%	100%
Designed for Vision Ltd*	New Zealand	100%	100%
REM Systems Ltd*	New Zealand	100%	100%
REM Systems Pty Ltd*	Australia	100%	100%
Meditron Pty Ltd*	Australia	100%	100%
Western Biomedical Pty Ltd*	Australia	100%	100%
Designs For Vision Holdings Pty Ltd*	Australia	100%	100%
Designs For Vision (Aust) Pty Ltd*	Australia	100%	100%
Designs For Vision Pty Ltd*	Australia	100%	100%
Electro Medical Group Pty Ltd*	Australia	100%	100%
MIDAS Software Solutions Pty Ltd*	Australia	100%	100%
Immulab Pty Ltd*	Australia	100%	100%
Insight Surgical Pty Ltd*	Australia	100%	100%
MedTech Solution Pty Ltd*	Australia	100%	100%
Surgical Specialities Holdings Pty Ltd*	Australia	100%	100%
Surgical Specialities Group Pty Ltd*	Australia	100%	100%
Surgical Specialities Pty Ltd*	Australia	100%	100%
Therapy Specialities Pty Ltd*	Australia	100%	100%
Surgical Specialities (NZ) Ltd*	New Zealand	100%	100%
Therapy Specialities Ltd*	New Zealand	100%	100%
Pergamon Technologies Pty Ltd*	Australia	100%	100%
Immuno Pty Ltd*	Australia	100%	100%
Immuno Ltd*	New Zealand	100%	100%
Labgear Australia Pty Ltd*	Australia	100%	100%
Paragon Medical Pty Ltd*	Australia	100%	100%
Scanmedics Pty Ltd*	Australia	100%	100%
Lovell Surgical Supplies International Pty Ltd*	Australia	100%	100%
Lovell Surgical Supplies Pty Ltd*	Australia	100%	100%
Lovell Surgical Solutions Pty Ltd*	Australia	100%	100%
Total Communications Pty Ltd*	Australia	100%	100%
AXIS Health Pty Ltd**	Australia	100%	100%
Rapini Pty Ltd**	Australia	100%	100%
Paragon Healthcare Pty Ltd**	Australia	100%	100%
GM Medical Pty Ltd**	Australia	100%	100%
Iona Medical Products Pty Ltd**	Australia	100%	100%
Volker Australia Pty Ltd**	Australia	100%	100%
L.R. Instruments Pty Ltd**	Australia	100%	100%
Richards Medical Pty Ltd**	Australia	100%	100%
Unikits Pty Ltd**	Australia	100%	100%

* Subsidiary of Paragon Care Group Holding Company Pty Ltd

** Subsidiary of AH563 Pty Ltd

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 39. Deed of cross guarantee

The Company and its controlled entities, as listed in note 38 '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 40. Cash flow information

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

	2021	2020
	\$'000	\$'000
Profit/(loss) after income tax (expense)/benefit for the year	8,279	(77,269)
Adjustments for:		
Depreciation and amortisation	6,200	8,053
Impairment of goodwill	-	57,235
Impairment of other assets	-	17,192
Share based payments	69	-
Allowance for expected credit losses	(232)	940
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	6,207	11,421
Decrease/(increase) in inventories	(4,916)	4,745
Increase in income tax refund due	(337)	5,666
Increase in deferred tax assets	3,919	(7,365)
Decrease in derivative assets	(416)	294
Increase/(decrease) in trade and other payables	9,790	(20,079)
Increase in derivatives liabilities	(1,578)	4,577
Increase/(decrease) in employee benefits	478	(121)
Net cash from operating activities	27,463	5,287

Non-cash investing and financing activities

	2021	2020
	\$'000	\$'000
Reduction in lease liability arising from lease modification	(2,049)	(3,000)
	(2,049)	(3,000)

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

NOTE 40. Cash flow information (continued)

Changes in liabilities arising from financing activities

	Bank loans \$'000	Trade finance facility \$'000	Lease liability/ hire purchase \$'000	Total \$'000
Balance at 1 July 2019	92,322	5,371	23,938	121,631
Net cash from/(used in) financing activities	(5,925)	6,076	(3,754)	(3,603)
Reduction in lease liability arising from lease modification	-	-	(3,000)	(3,000)
Balance at 30 June 2020	86,397	11,447	17,184	115,028
Net cash from/(used in) financing activities	-	4,140	(4,108)	32
Reduction in lease liability arising from lease modification	-	-	(2,049)	(2,049)
Balance at 30 June 2021	86,397	15,587	11,027	113,011

Note 41. Earnings per share

Continuing operations

	2021 \$'000	2020 \$'000
<i>Earnings per share for profit/(loss) from continuing operations</i>		
Profit/(loss) after income tax attributable to the owners of Paragon Care Limited	8,279	(71,600)
	8,279	(71,600)

	2021 Number	2019 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	337,885,292	337,885,292
Adjustments for calculation of diluted earnings per share:		
Performance rights	6,914,546	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	344,799,838	337,885,292

	2021 cents	2019 cents
Basic earnings per share	2.45	(21.19)
Diluted earnings per share	2.40	(21.19)

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

Note 41. Earnings per share (continued)

Discontinued operations

	2021	2020
	\$'000	\$'000
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax attributes to the owners of Paragon Care Limited	-	(5,669)
	-	(5,669)

	2021	2020
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	337,885,292	337,885,292
Adjustments for calculation of diluted earnings per share:		
Performance rights	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	337,885,292	337,885,292

	2021	2020
	cents	cents
Basic earnings per share	-	(1.68)
Diluted earnings per share	-	(1.68)

Overall profit/(loss)

	2021	2020
	\$'000	\$'000
<i>Earnings per share for profit/(loss)</i>		
Profit/(loss) after income tax attributable to the owners of Paragon Care Limited	8,279	(77,269)
	8,279	(77,269)

	2021	2020
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	337,885,292	337,885,292
Adjustments for calculation of diluted earnings per share:		
Performance rights	6,914,546	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	344,799,838	337,885,292

	2021	2020
	cents	cents
Basic earnings per share	2.45	(22.87)
Diluted earnings per share	2.40	(22.87)

Notes to and forming part of the Financial Statements *Continued*

For the year ended 30 June 2021

Note 42. 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 26 April 2019 include 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 extrapolation will apply between 10% and 15%.

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

The vesting conditions for performance rights granted on 22 February 2021 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price of 30c being achieved in the financial year 2021 calculated on a 14-day VWAP;
- Tranche 2: One third to vest subject to continuous employment and a minimum share price of 40c being achieved in the financial year 2022 calculated on a 14-day VWAP; and
- Tranche 3: One third to vest subject to continuous employment and a minimum share price of 50c being achieved in the financial year 2023 calculated on a 14- day VWAP.

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.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2021

Note 42. Share-based payments (continued)

Summary of performance rights granted

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

2021

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/forfeited/ other	Balance at the end of the year
26/04/2019	30/09/2022	318,574	-	-	(129,764)	188,810
22/02/2021	30/09/2023	-	6,725,736	-	-	6,725,736
		318,574	6,725,736	-	(129,764)	6,914,546

2020

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/forfeited/ other	Balance at the end of the year
14/12/2018	30/09/2021	228,119	-	-	(228,119)	-
26/04/2019	30/09/2022	633,886	-	-	(315,312)	318,574
		862,005	-	-	(543,431)	318,574

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:

Grant date	Expiry date	Share price at grant date	Fair value at grant date
22/02/2021	30/09/2023	\$0.2700	\$0.0030

Note 43. Events after the reporting period

Outside of the dividend declared subsequent to balance date detailed in note 30, no other matter or circumstance has arisen since 30 June 2021 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.

Directors' Declaration

For the year ended 30 June 2021

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 2021 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 39 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



Shane Tanner
Chairman

27 August 2021
Melbourne

Auditor's Report



Auditor's Report *Continued*
For the year ended 30 June 2021



RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61(0) 3 9286 8000

F +61(0) 3 9286 8199

www.rsm.com.au

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 2021, 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 2021 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.

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Key Audit Matters (continued)

Key Audit Matter	How our audit addressed this matter
<p>Impairment of Goodwill Refer to Note 21 in the financial statements</p>	
<p>As at 30 June 2021, the Group had goodwill with a carrying amount of \$149 million relating to its numerous acquisitions in recent years.</p> <p>As required by AASB 136 <i>Impairment of Assets</i>, management has performed an impairment assessment over the goodwill balance as at 30 June 2021 by:</p> <ul style="list-style-type: none"> • calculating the recoverable amount of the cash generating unit (“CGU”), which was determined to be the value in use of the CGU, using a discounted cash flow model. This model used cash flow projections for the CGU for 5 years, with a terminal growth rate applied to the 5th year. The cash flow projections were then discounted to net present value using the Company’s weighted average cost of capital (“WACC”); and • comparing the resulting value in use of the CGU to the CGU’s carrying amount. <p>As a result of this exercise, no impairment of goodwill was considered necessary during the year. 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.</p> <p>We determined the impairment of goodwill to be a Key Audit Matter due to the materiality of the goodwill balance, and because the directors’ assessment of the ‘value in use’ of the CGU involves judgements about the future underlying cash flows of the business, estimated growth rates for the CGU for the next 5 years as well as in perpetuity, and the discount rates applied to the estimated cash flows. We note that the impact of the COVID-19 pandemic on the current market conditions has increased the level of judgement by the directors in estimating future cash flows.</p>	<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"> • 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; • Assessing the value-in-use calculations; • Challenging the reasonableness of key assumptions, including the cash flow projections, future growth rates, discount rates and terminal values; • 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; • Reviewing management’s sensitivity analysis over the key assumptions in the model and assessing whether the assumptions have been applied on a consistent basis across each scenario; and • Assessing the disclosures in Note 21 to the financial statements to assess compliance with the disclosure requirements of AASB136 <i>Impairment of assets</i> and AASB138 <i>Intangible assets</i>.

Auditor's Report *Continued*
For the year ended 30 June 2021



Key Audit Matters (continued)

Inventory Valuation, including provision for inventory obsolescence	
Refer to Note 16 in the financial statements	
<p>The Group's inventory balance, as disclosed in Note 16, consists primarily of finished goods of various medical equipment held for distribution.</p> <p>Inventory is valued at the lower of cost and net realisable value. The determination of net realisable value of inventory requires a significant degree of management judgement including assumptions concerning the provision for obsolescence, as well as future market conditions based on changing customer needs and market trends.</p> <p>The Group carries a provision for inventory obsolescence of \$11.2 million (2020: \$11.6 million) as a result of an inventory review undertaken as part of the Group's sales strategy and as a result of the impacts of COVID-19.</p> <p>On the basis of the factors set out above, the valuation of inventory was considered to be a Key Audit Matter.</p>	<p>Our audit procedures in relation to the valuation of inventory and provision for obsolescence included:</p> <ul style="list-style-type: none"> • Obtained an understanding of key controls relating to inventory management and its revised provision for inventory obsolescence policy; • Evaluating management's 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; • Understanding the provisioning methodology and assessing the appropriateness thereof; • Assessing and validating the key assumptions applied by management in estimating the provision, by performing enquiries of management and reviewing the current purchasing strategy and rationalisation plans; • Testing the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and • Assessing the completeness and accuracy of disclosures in relation to the accounting estimates within the financial statements in accordance with the Australian Accounting Standards.



Key Audit Matters (continued)

Recognition of Revenue	
Refer to Note 5 in the financial statements	
<p>The Group’s revenue from continuing operations for the year ended 30 June 2021 was \$235.8 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"> • Assessing whether the Group’s revenue recognition policies were in compliance with the requirements of AASB 15 <i>Revenues from Contracts with Customers</i>; • Evaluating and testing the operating effectiveness of key controls related to revenue recognition; • Reviewing any large or unusual transactions close to the end of the financial year; • Conducting a combination of tests of controls, substantive analytical procedures and tests of details in respect of revenue related transactions; and • Reviewing disclosures in relation to impact on adoption of AASB 15 and the disaggregation of revenues in the financial statements.

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 2021, 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.

Auditor's Report *Continued*
For the year ended 30 June 2021



Responsibilities of the Directors for the Financial Report (continued)

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.

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/admin/file/content102/c3/ar1_2020.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 2021.

In our opinion, the Remuneration Report of Paragon Care Limited, for the year ended 30 June 2021, 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

M PARAMESWARAN
Partner

Dated: 27 August 2021
Melbourne, Victoria

Shareholder Information



Shareholder Information

For the year ended 30 June 2021

Details of Shares and Performance Rights as at 13 August 2021:

Top Holders

The 20 largest holders of Fully Paid Ordinary Shares as at were:

Ordinary Shares

Name	Units	% of Issued Shares
PERPETUAL CORPORATE TRUST LTD	50,418,386	14.92
FIRST SAMUEL LTD ACN 086243567 <ANF ITS MDA CLIENTS A/C>	24,885,164	7.36
BERNE NO 132 NOMINEES PTY LTD <737539 A/C>	16,717,541	4.95
CITICORP NOMINEES PTY LIMITED	16,329,042	4.83
BUTTONWOOD NOMINEES PTY LTD	5,678,195	1.68
JMT INVESTMENT GROUP VIC PTY LTD <JOHN TURNER SUPER FUND A/C>	5,000,000	1.48
NEGRONI HOLDINGS PTY LTD <THE DFN A/C>	4,727,531	1.40
MR PAUL ANDREW SCHOLLUM & MRS KATRINA MAREE CALDWELL & MRS DEBORAH ANNE MOSS	4,717,320	1.40
SHEMOZEL PTY LTD <SHEMOZEL A/C>	4,561,256	1.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,506,273	1.33
JMT INVESTMENT GROUP VIC PTY LTD	4,240,000	1.25
NEWMELD PTY LTD <NEWMELD SUPER FUND A/C>	4,078,172	1.21
HEATH NOMINEES (AUST) PTY LTD <THE HEATH FAMILY A/C>	3,782,924	1.12
GRILLS INVESTMENTS PTY LTD <GRILLS DISCRETIONARY TRUST>	3,773,585	1.12
MRS MICHELLE STEWART & MR BRENT MICHAEL STEWART <BRENT STEWART SUPER A/C>	3,246,334	0.96
MR PAUL ANDREW SCHOLLUM & MRS KATRINA MAREE CALDWELL & MRS DEBORAH ANNE MOSS	3,106,538	0.92
LORA FALLS PTY LTD <THE FEHRMANN FAMILY TRUST>	3,000,000	0.89
HEATH SUPER (AUST) PTY LTD <HEATH SUPER FUND A/C>	2,870,092	0.85
JOHN KEITH RADLEY & PAUL ANDREW SCHOLLUM <PAUL SCHOLLUM FAMILY>	2,595,540	0.77
GRAYSON NOMINEES PTY LTD <GRAYSON INVESTMENT A/C>	2,500,000	0.74
	170,733,893	50.53

Distribution Schedules

A distribution of each class of equity security as at 13 August 2021:

Fully Paid Ordinary Shares

	Total holders	Number of shares	% Units
100,001 and Over	313	258,227,067	76.42
10,001 to 100,000	2,037	67,351,798	19.93
5,001 to 10,000	926	7,257,840	2.15
1,001 to 5,000	1,668	4,695,860	1.39
1 to 1,000	876	352,727	0.10
	5,820	337,885,292	100.00

Unlisted Performance Rights – Issued under the Company's Employee Incentive Plan

Number of Units	Total holders	Number of shares	% Units
100,001 and Over	15	6,725,736	97.27
10,001 to 100,000	2	188,810	2.73
5,001 to 10,000	0	0	0.00
1,001 to 5,000	0	0	0.00
1 to 1,000	0	0	0.00
	17	6,914,546	100.00

Shareholder information *Continued*
For the year ended 30 June 2021

Substantial shareholders

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

Substantial shareholders	No. of shares	%
Pioneer Hong Kong Group	57,856,735	14.92
First Samuel Limited	26,674,651	7.89

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 965,115 at \$0.29 per share as at 27 July 2021):

Fully Paid Ordinary Shares	Holders	No. of shares	% of issue shares
Holdings less than a marketable parcel	1,317	959,808	0.28

Voting rights

The voting rights attaching to fully paid ordinary shares are:

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

Unquoted Performance Rights do not carry any voting rights.

Additional shareholder information

The 2021 Annual General Meeting will be held on Thursday, 18 November 2021 at 1.00pm (Melbourne time). Further details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch.

In accordance with rule 3.5(c) of the Company's constitution, the Closing Date for Nomination of Director is Wednesday, 6 October 2021. Any nomination must be received in writing no later than 5.00pm (Melbourne time) on Wednesday, 6 October 2021 at the Company's Registered Office.