ParagonCare
Health. Covered.

# ANNUAL REPORT 2018

508

People Employed

145

Sales Team

100

Service & Technology Team

52

Customer Service Team

# Company Overview

Paragon Care has emerged as a leading provider of equipment, devices and consumables to the healthcare market. We also offer equipment repair, maintenance and total equipment management through our new business unit – Paragon Care Service & Technology – to encompass all of our service capabilities.

Our people have given strength to the synergies that flow from the Paragon Care Group and together we have secured the Paragon Care name as a leading supplier of a peerless range of high quality products and services for the healthcare industry.

## Key Market Positioning

- Extremely diverse product and service portfolio
- Extensive project management scope with installation and commissioning capabilities
- Comprehensive service and maintenance capability
- National footprint for sales and service support

## Office Locations

- Head Office
- State & International Offices

## Paragon Care Group of Companies

Paragon Care (ASX:PGC) is an Australian based listed company which has progressively acquired businesses in the healthcare sector. It is an integrated healthcare equipment and services provider for the Australian and New Zealand healthcare market.

By combining a series of strategic acquisitions of class leading companies, Paragon Care provides end to end solutions including equipment and service solutions.

## One Platform

Offering a strong portfolio of products and services across essential healthcare procurement categories

SPECIALTY DEVICES

SPECIALTY DIAGNOSTICS

CAPITAL & CONSUMABLES

SERVICES & TECHNOLOGY

## Our Brands

**anaequipmedical**
Anaesthesia
Laboratory
Oxygen Equipment

**axishealth**
Capital Equipment
Stretchers
Carts and Trolleys

**DESIGNS FOR VISION**
Ophthalmology Equipment
Optometry Equipment

**ELECTRO MEDICAL GROUP**
Service and Technology Management

**gmmedical**
Stainless Steel
Trolleys / Equipment

**insight SURGICAL**
Ophthalmology Equipment
Optometry Equipment

**IMMUNO**
Pathology Equipment
Reagents
Software

**immulab**
Immunohaemotology

**iona**
Aged Care Products

**LabGear AUSTRALIA**
Laboratory Equipment

**LRINSTRUMENTS**
Medical Equipment and Consumables

**MediTron**
Surgical Lasers
Lithotripsy
Fusion Biopsy
Ultrasound and Accessories

**medtek**
Service and Technology Management

**MedTech SOLUTIONS**
Service and Technology Management

**MIDAS**
Interpretive Software Reporting Program

**rapini**
Storage Solutions

**REM SYSTEMS**
Medical Supplies and Equipment
New Zealand

**RICHARDSMEDICAL**
Medical Equipment and Consumables

**SCANMEDICS**
Ultrasound
Newborn Hearing
Temperature Management

**surgical specialties**
Surgical and Critical Care Products

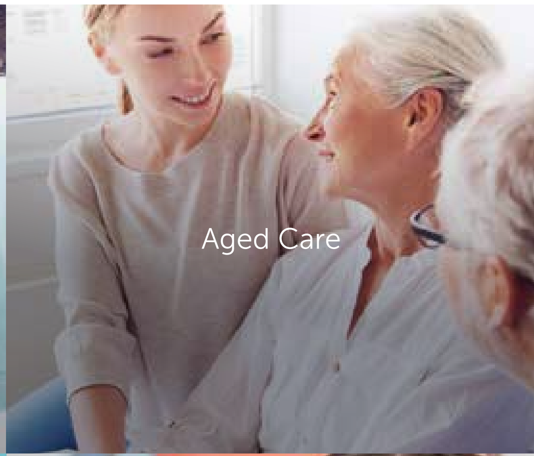
**western biomedical**
Medical and Surgical Supplies

# ParagonCare

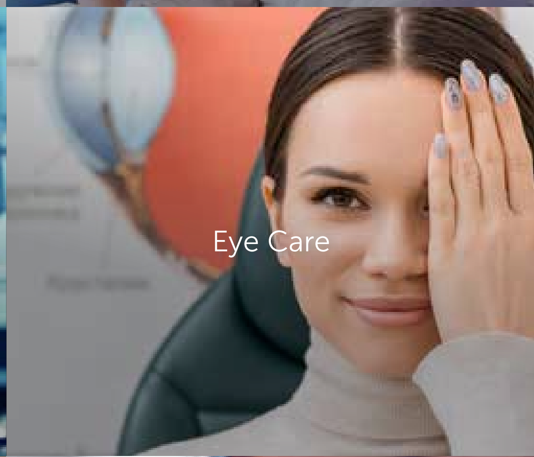
## More Products and Services via One Platform

We have an extremely diverse product portfolio and offer an extensive project management scope with installation, services and commissioning capabilities.

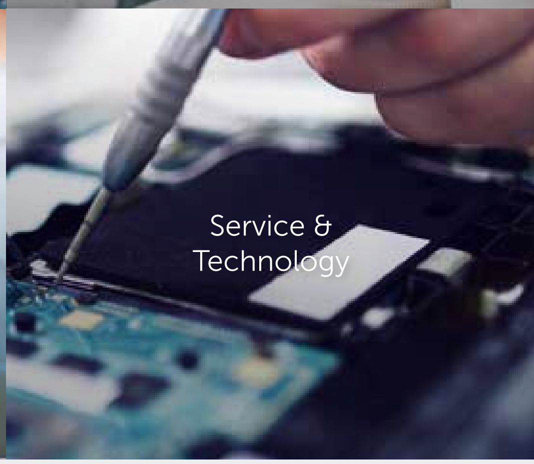
Paragon Care continues to build it's strong representation within the following healthcare markets:





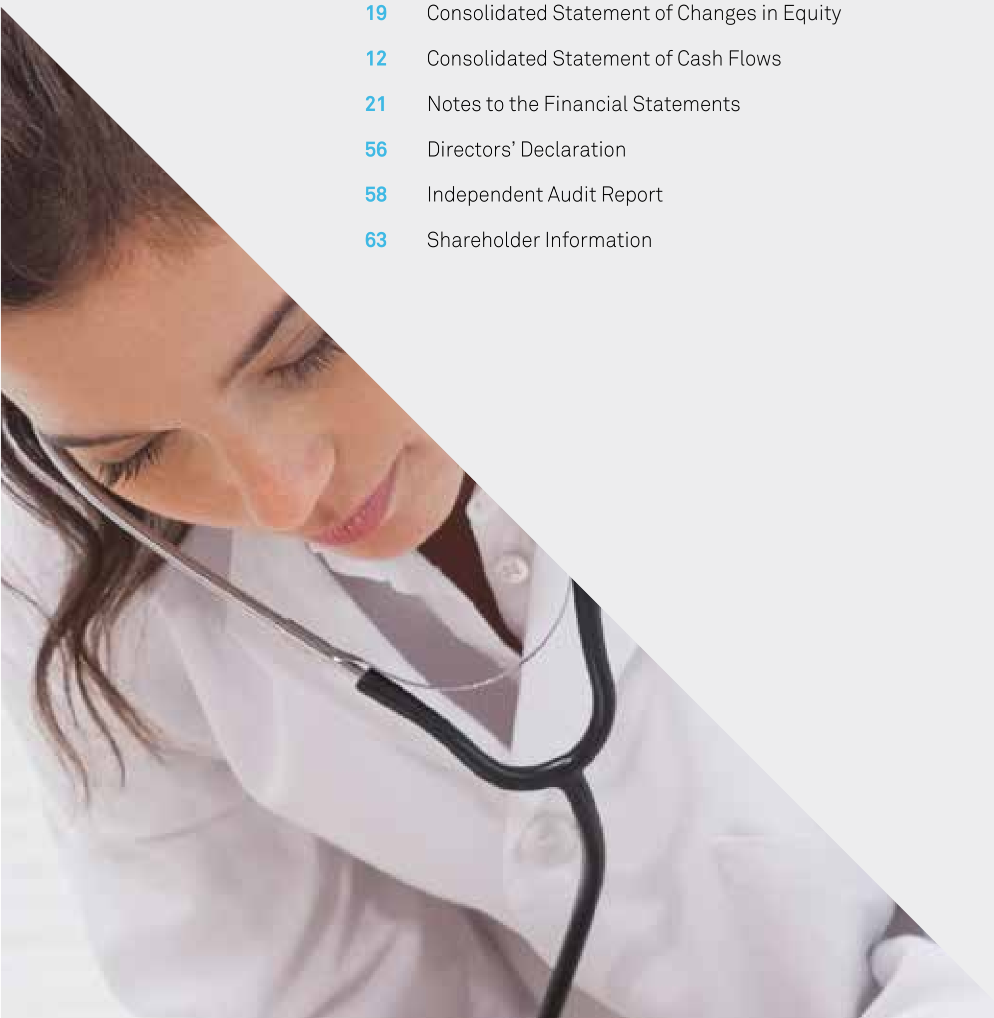




# Health. Covered.

Offering a strong portfolio of products and services across essential healthcare procurement categories

# Contents





# Corporate Directory

**Directors**

| | |
|---|---|
| Shane Tanner | Non-Executive Chairman |
| Andrew Just | Managing Director |
| Michael Newton | Non-Executive Director |
| Geoffrey Sam OAM | Non-Executive Director |
| Brent Stewart | Non-Executive Director |

**Company Secretaries**

Melanie Leydin

Leonard Kocovic

**Share Registry**

Link Market Services Limited
Level 13, Tower 4
Melbourne, VIC, 3000

Locked Bag A14
Sydney South, NSW, 1235

Telephone:1300 554 474
Facsimile: (02) 9287 303
Website: www.linkmarketservices.com.au

**Stock Exchange Listing**

Australian Stock Exchange
Trading Code:
PGC – Ordinary Shares

**Auditor**

RSM Australia Partners
Level 21, 55 Collins Street
Melbourne, VIC, 3000
Website: www.rsmi.com.au

**Bankers**

National Australia Bank

**Solicitors**

SOHO Lawyers
Level 5, 124 Exhibition Street
Melbourne, VIC, 3000

**Paragon Care Limited**

ABN 76 064 551 426

Registered Office
11 Dalmore Drive
Scoresby, VIC 3179
Telephone: 1300 369 559
Telephone: +61 3 8833 7800
Facsimile: +61 3 8833 7890

Principal Business Office
11 Dalmore Drive
Scoresby, VIC 3179
Telephone: 1300 369 559
Telephone: +61 3 8833 7800
Facsimile: +61 3 8833 7890

Website: www.paragoncare.com.au

# Chairman's Report

**Introduction**

On behalf of the Board of Directors of Paragon Care Limited, I am pleased to present to you our 2018 Annual Report.

**The Period in Review**

The financial year ended 30th June 2018 was the busiest and most transformative year in the short history of the Company. Nine strategic acquisitions were successfully completed that resulted in a more balanced portfolio of businesses as well as a greater geographical reach where we materially invested for the first time in New Zealand, Queensland and South Australia. During the 2017/18 year, Paragon has delivered on its key strategy of becoming a less cyclical and more diversified business by key investments in the Device, Service & Technology and Diagnostic sectors. Our Capital and Consumable business continued to grow however other growth initiatives has seen Capital and Consumables reduce from 70% of the Company to around 40%.

**Highlights for the year ended 30 June 2018 included:**

- Revenues up 17% to $136.7m
- Gross Margins up from 39% to 40%
- EBITDA up 6% to $18.2m (up 15% to $19.7m before acquisition and restructuring expenses)
- EPS down from 6.2c to 5.4c (however EPS was 6.6c on Full Year Pro Forma basis)
- A 3% increase in Full Year Dividends
- Andrew Just was welcomed in January 2018 as the Company's new CEO and Managing Director to take control of levels of growth – both organic and via acquisition
- Brent Stewart, an accomplished healthcare professional joined the board following the acquisition of Surgical Specialties in April
- A $69m capital raising in February 2018 at 72.5c per share (30th June 2018 closing price of 76.5c per share)
- A post balance date $45m share placement representing 15% of the Company at 91c per share via a new strategic investor, Pioneer Pharma (Australia) Pty Ltd wholly owned subsidiary of China Pioneer Pharma Holdings Limited
- Nine key and strategic acquisitions joined the Company including one of New Zealand's premier healthcare services providers, REM Systems

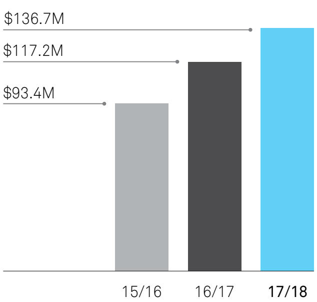
At the end of the 2018 financial year, on a Pro Forma basis, Paragon's revenue was $238m, effectively double the revenue generated in 2017. Growth of this nature is exciting but it comes with a huge amount of work and resources required to efficiently integrate and provide a value add for our shareholders. To date, all acquisitions over the past 9 years have been successfully integrated, managed and grown. There is a lot more to do in extracting greater benefits, savings and synergies from these businesses. The team led by Andrew Just are very focused on strong organic growth and the Company has invested heavily in the sales team through both additional numbers and better training and support systems.

On behalf of the Board, I would like to thank our shareholders, employees, suppliers and distributors for their continued support. The market Paragon operates in is still young and fragmented with solid long term growth prospects. Our new strategic shareholder, China Pioneer Pharma Holdings give us additional opportunities grow our business into the Asian Region and we therefore move into the 2019 year with great confidence.

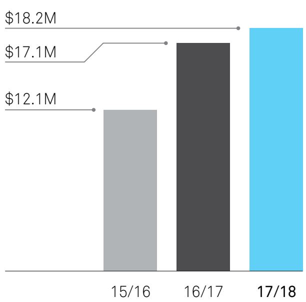
On behalf of the Board, I would like to thank the employees, customers, suppliers and shareholders of Paragon Care for their continued support. The management team led by Managing Director Andrew Just continues to deliver outstanding results and we move into the 2018 year with great confidence.

Shane Tanner
Chairman
27 August 2018

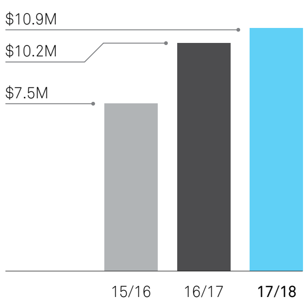
**Revenue**




**EBITDA**




**Net Profit**



# Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Paragon Care Limited ("Company") and the entities it controlled at the end of, or during, the year ended 30 June 2018.

**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.

Mr Shane Tanner
Mr Mark Simari (Resigned 22/01/18)
Mr Michael Newton
Mr Brett Cheong (Resigned 31/05/18)
Mr Geoffrey Sam
Mr Michael Rice (Resigned 31/05/18)
Mr Andrew Just (Appointed 31/05/18)
Mr Brent Stewart (Appointed 31/05/18)

**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:

**Operating Results and Review of Operations for the Year Key financial highlights include:**

| | 2017/18 | 2016/17 |
|---|---|---|
| Revenue | $136.7M | $117.2 M |
| EBITDA | $18.2M | $17.1 M |
| Net Profit | $10.9M | $10.2 M |
| Net Debt | $64.4M | $18.5 M |

The Group's performance has increased again in the 2017–18 financial year compared with 2016–17. Revenue increased by 17% to $136.7 million whilst net profit grew 8% from a profit of $10.1 million in 2017 to $10.9 million for 2018.


**Directors' Report** *Continued*
For the year ended 30 June 2018

# Highlights for the year included:

- Revenues increased by 17% to $136.7M and an EBITDA of $18.2M, a 6% increase from last year, illustrating the strategy of creating a healthcare platform for a vast range of products and servicing is successfully being implemented into the health care sector.
- A year of strategic acquisitions and transformation with new CEO and Managing Director Andrew Just steering nine strategic successful acquisitions, complimenting existing businesses while continuing to expand new products and new markets.
- Paragon Care continues to increase its geographic presence with operations now in South Australia, Queensland and New Zealand that enables the expansion for the entire Paragon Care suite of products into these regions.
- The organic growth of many parts of the existing product ranges has continued this year on the back of increased penetration into the health and age care sector and new product development.
- In May 2018, the Stralus C 200 Series Acute Care Bed was the Gold Winner of Good Design Award. The good design award is a globally recognised seal for design excellence and certifies that the project has met the international recognised criteria for design excellence.
- During the year Paragon Care has continued to grow and achieve its vision of offering its customers a broad platform of products and services designed to assist health professionals easily access high quality medical products, devices and consumables to deliver better and more affordable medical outcomes to their patients.
- The continued expansion of hospital, aged care and allied health and medical facilities in Australia and the underlying strength of the health care sector provide strong growth markets in which Paragon Care's products and services are sold.

**Likely developments and expected results of operations**

The Company's focus for the coming year will be to continue to implement its strategy to become one of Australia's leading providers of medical equipment and integrated services to the health and aged care sector throughout Australia and New Zealand.

The Company will continue to seek and attempt to secure suitable investments or businesses that are complimentary to its existing operations and further enhance its product and service offering to the health and aged care markets.

Leveraging the diverse product portfolio, Paragon Care will continue to penetrate high growth markets driven by the ageing of the population and continuously rising consumer expectations and increasing government spending.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this Annual Financial Report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

**Environmental Regulations**

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

**Dividends Paid**

In keeping with Directors confidence of Paragon Care, the directors have recommended the payment of a fully franked final dividend of 2.0 cents per fully paid ordinary share) to be paid on 12th of October 2018 in respect of the financial year ended 30 June 2018.

The dividend will be paid to all shareholders on the register of members as at the Record Date of 17th of September 2018. This dividend has not been included as a liability in these financial statements.

In April 2018, an interim dividend of 1.1 cents per share valuing $2,990,274 fully franked was paid. The record date was 16th March 2018 with the payment date of 12 April 2018.

Combined with the interim dividend of 1.1 cents per fully paid ordinary share in respect of the half year ended 31 December 2017, the full year dividend for 2018 will be 3.1 cents per fully paid ordinary share, a 3% increase. With earning per share at 5.4 cents and the full year dividend of 3.1 cents per fully paid ordinary share for the 2018 represents a dividend per share payout of 57% which is at the higher end of 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. The DRP has been available since the interim dividend payable on 31 March 2014. Shares will be issued at a discount of 2.5% to the volume weighted average market price of shares sold on the ASX over the 5 trading days immediately preceding the record date.

# Directors' Report

**Information on Directors and Company Secretaries**

Mr Shane Tanner
Mr Andrew Just***
Mr Brent Stewart ***
Mr Michael Newton
Mr Geoffrey Sam OAM
Mr Mark Simari **
Mr Brett Cheong *
Mr Michael Rice *

*** Appointed 31 May 2018
** Resigned 22 January 2018
* Resigned 31 May 2018

Directors have been in office since the start of the financial year to the date of this report (unless otherwise stated).

'Other current directorships' quoted below 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 below are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

**Mr Shane Tanner**

Non-Executive Chairman

Qualifications:
FCPA, ACIS

Experience and expertise:
Shane was one of the Co-Founders of Paragon Care Limited and has considerable experience at both senior executive and board level, bringing more than 25 years' experience in healthcare and strategy. Shane has orchestrated and been responsible for numerous small and large-scale acquisitions. He has also helped to establish and guide a number of significant businesses. Shane is also currently Chairman of two successful ASX listed healthcare businesses, Zenitas Healthcare Limited and Rhythm Biosciences Limited. Shane is also Chairman of ASX listed Funtastic Limited. Previously, Shane was CEO of Symbion Health, one of Australia's largest diagnostic businesses and Chairman of Vision Eye Institute.

Other current directorships:
Funtastic Limited (ASX: FUN), Rhythm Biosciences Limited (ASX: RHY) and Zenitas Healthcare Limited (ASX: ZNT)

Former directorships (last 3 years):
Vision Eye Institute

Special responsibilities:
Chairman of Nomination and Remuneration Committee
Member of Investment Review Committee

Interests in shares:
850,000 fully paid ordinary shares

**Mr Andrew Just**

Managing Director &
Chief Executive Officer

Qualifications:
BEc, HeC, MBA, GAICD

Experience and expertise :
Andrew has more than 25 years global experience in the healthcare industry through previous roles as Regional Director for Fortune 500 and ASX listed companies including Danaher (Radiometer), Stryker, Cochlear, GE Healthcare, Roche and Novartis. Andrew has worked across multiple healthcare sectors involving functional leadership of sales, marketing, clinical, services, operations, supply chain and general management. Andrew's track record includes successfully delivering strong organic growth through a clear focus on strategy and people, led by driving customer value.

Special responsibilities:
Member of Investment Review Committee

**Mr Brent Stewart**

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.

Interests in shares:
2,862,665 fully paid ordinary shares

**Directors' Report** *Continued*
For the year ended 30 June 2018

### Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

| | Directors' Meetings | | Audit & Risk Management Committee | | Nominations & Remuneration Committee | |
|---|---|---|---|---|---|---|
| | Eligible to attend | Number attended | Eligible to attend | Number attended | Eligible to attend | Number attended |
| Shane Tanner | 14 | 14 | 1 | 1 | 3 | 3 |
| Michael Newton | 14 | 14 | 2 | 2 | 3 | 3 |
| Geoffrey Sam | 14 | 13 | 2 | 1 | - | - |
| Brett Cheong* | 13 | 12 | - | - | - | - |
| Brent Stuart | 1 | 1 | - | - | - | - |
| Michael Rice* | 13 | 10 | - | - | - | - |
| Andrew Just | 1 | 1 | - | - | - | - |
| Mark Simari* | 7 | 7 | - | - | - | - |

* Resigned during the period

**Mr Michael Newton**

Non-Executive Director

Qualifications:

B.App Sci., Grad Dip Bus Adm

Experience and expertise:

Michael is an experienced operator specialising in the industrial chemical sector with a long history in various executive roles with both Unilever and ICL PLC where he worked across Europe, Asia, U.S. and Australia. Michael successfully managed major diversification programs and exceptional business growth during his role at Symex Holdings (now Pental Ltd). Michael is currently Chairman of the Power House Youth Leadership Foundation.

Special responsibilities:

Chairman of Audit and Risk Committee
Member of Nomination and Remuneration Committee

Interests in shares:

403,134 fully paid ordinary shares

**Mr Geoffrey Sam OAM**

Non-Executive Director

Qualifications:

BCom, M.Hospital Administration, M.Economics & 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 HealtheCare Australia Pty Ltd, a privately-owned health care company comprising a portfolio of 35 hospitals and a community nursing and rehabilitation business.

Other current directorships:

CML Group Limited (ASX: CGR)

Special responsibilities:

Chairman of Investment Review Committee
Member of Audit and Risk Committee

Interests in shares:

1,343,974 fully paid ordinary shares

**Ms Melanie Leydin**

Company Secretary

Qualifications:

Bachelor of Business majoring in Accounting and Corporate Law

Experience and expertise:

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

**Leonard Kocovic**

Company Secretary

Qualifications:

Bachelor of Business majoring in Accounting & Commercial Law, CPA Qualified

Experience and expertise:

Leonard is the Chief Financial Officer and joint Company Secretary with responsibilities for finance and corporate services.
He brings over 25 years senior finance experience in Leading ASX listed companies and top 200 privately owned companies.
Prior to joining Paragon Care Limited Leonard was General Manager Finance of Myer Holdings Limited and Chief Financial Officer of Conga Foods Pty Ltd and held various senior finance roles at Cantarella Bros and DNP Nominees Pty Ltd.
Leonard is a member of CPA Australia and holds a Bachelor of Business majoring Accounting & Commercial Law.

**Directors' Report** *Continued*
For the year ended 30 June 2018

### Director Shareholdings and Key Management Personnel

| Directors | Balance at the start of the year *(or date of appointment)* | Shares acquired | Shares disposed | Other changes during the year | Balance at the end of the year *(or date of resignation)* |
|---|---|---|---|---|---|
| Shane Tanner | 723,500 | 126,500 | - | - | 850,000 |
| Mark Simari* | 1,004,778 | 5,442 | - | - | 1,010,220 |
| Michael Newton | 375,548 | 27,586 | - | - | 403,134 |
| Brett Cheong* | 2,642,640 | - | (344,827) | - | 2,297,813 |
| Michael Rice* | 134,058 | - | - | - | 134,058 |
| Geoffrey Sam | 715,377 | 628,597 | - | - | 1,343,974 |
| Brent Stewart** | 2,823,466 | - | - | - | 2,823,466 |
| Andrew Just** | - | - | - | - | - |
| **Total** | **8,419,367** | **788,125** | **(344,827)** | **-** | **8,862,665** |

* Resigned as a Director during the period
** Appointed as a Director during the period

### Remuneration Report

This remuneration report sets out remuneration information for Paragon Care's Non-Executive Directors, Executive Directors, and other key management personnel.

**Directors and key management personnel disclosed in this report**

Non-Executive and Executive Directors

Mr Shane Tanner
Mr Mark Simari (Resigned 22/01/18)
Mr Michael Newton
Mr Brett Cheong (Resigned as a Director 31/05/18)
Mr Geoffrey Sam
Mr Michael Rice (Resigned as a Director 31/05/18)
Mr Andrew Just (Appointed 31/05/18)
Mr Brent Stewart (Appointed 31/05/18)

Other key management personnel

| | |
|---|---|
| Michael Rice | Chief Operations Manager |
| Leonard Kocovic | Chief Financial Officer |

*Remuneration governance*

The remuneration committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- The over-arching Executive remuneration framework
- Remuneration levels of Executive Directors and other key management personnel, and
- Non-Executive Directors fees

Their objective is to ensure that remuneration policies and structures are fair, competitive and aligned with the long term interests of the Company.

The Corporate Governance Statement provides further information on the role of this committee.

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

*Non-Executive Directors*

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Detail of the remuneration of each Non-Executive Director is shown below. The Chairman in consultation with independent advisors determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders in a General Meeting, and is currently $350,000 per annum. Fees for Non-Executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

Non-Executive Directors' remuneration reflects the additional responsibilities each Director may take on from time to time. There are no termination benefits for Non-Executive Directors.

*Directors' Fees*

The current Director's fees were last reviewed with effect from 1 July 2015. The following fees have applied:

| Base Fees | 30 June 2017 | 30 June 2018 |
|---|---|---|
| Chairman | $120,000 | $120,000 |
| Other Non-Executive Directors | $50,000 | $60,000 |

*Executive Pay*

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 achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice for delivery of reward. 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
- Capital management

The Group has structured an Executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

The remuneration committee is responsible for determining and reviewing compensation arrangements. The remuneration committee assess the appropriateness of the nature and amount of emoluments of company Executives on a periodic basis by reference to relevant employment market conditions and capacity to pay with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Remuneration packages are set at levels that attract and retain Executives capable of managing the Company's operations. Remuneration and other terms of employment for the Managing Director and Executives have been formalised in service agreements.

Agreements are structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the Executives' discretion.

The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

**Directors' Report** *Continued*
For the year ended 30 June 2018

***Details of remuneration and service agreements***

*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 Executive Directors and other senior executives and key management are also formalised in service agreements.

*Company share performance shareholder wealth and Director Executive remuneration*

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 69.0¢ and a high of 95.8¢. As at 30 June 2018 the, Company's share price (ASX: PGC) was 82.5¢ per share.

PGC Share Performance

| Year Ended | 30 June 2013 | 30 June 2014 | 30 June 2015 | 30 June 2016 | 30 June 2017 | 30 June 2018 |
|---|---|---|---|---|---|---|
| Price High ¢ | 43.5 | 48.5 | 59.0 | 72.9 | 91.0 | 95.8 |
| Price Low ¢ | 17.0 | 22.5 | 25.0 | 54.0 | 69.0 | 69.0 |
| Price 30 June ¢ | 30.5 | 26.0 | 59.0 | 70.0 | 77.0 | 82.5 |
| Earnings ¢ per share | 1.7 | 2.0 | 3.2 | 5.6 | 6.2 | 5.4 |
| Dividends ¢ | Nil | 1.0 | 1.35 | 2.2 | 3.0 | 3.1 |
| Dividends ¢ (Interim) | Nil | 0.5 | 0.6 | 0.8 | 1.1 | 1.1 |
| Net Asset $ million | 10.37 | 18.20 | 20.58 | 72.26 | 82.69 | 170.1 |

Major provisions of the agreements as at 30 June 2018 relating to remuneration are set out below:

| Name | Term of Agreement | Base Salary Including Superannuation | Termination Benefit |
|---|---|---|---|
| **Non-Executive Directors** | | | |
| Mr S F Tanner<br>Non-Executive Chairman | No fixed term | $120,000 | No termination benefit |
| Mr M C Newton<br>Non-Executive Director | No fixed term | $50,000 | No termination benefit |
| Mr G J Sam<br>Non-Executive Director | No fixed term | $50,000 | No termination benefit |
| Mr B Stewart<br>Non-Executive Director | No fixed term | $60,000 | No termination benefit |
| **Executive Directors** | | | |
| Mr A Just<br>Managing Director / CEO | No fixed term | $525,000 | No termination benefit |
| **Other Key Management Personnel** | | | |
| Mr L Kocovic<br>Chief Financial Officer | No fixed term | $300,000 | No termination benefit |
| Mr M G Rice<br>Alternate Director /<br>Chief Operating Officer | No fixed term | $273,750 | No termination benefit |

**Directors' Report** *Continued*
For the year ended 30 June 2018

**Emoluments of Directors, Executive officers and other Executives of the Company:**

## 2018

| | Short-Term Employee Benefits | | | Post Employment Benefits | Long-Term Benefits | Share-Based Payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees | Cash Bonus | Non-Monetary Benefits | Super-annuation | Long Service Leave | Options | Total |
| | $ | $ | $ | $ | $ | $ | $ |
| **Non-Executive Directors** | | | | | | | |
| Mr Shane Tanner | 120,000 | - | - | | - | - | 120,000 |
| Mr Michael Newton | 43,473 | - | - | 4,130 | - | - | 47,603 |
| Mr Geoffrey Sam | 43,473 | - | - | 4,130 | - | - | 47,603 |
| Mr Brent Stewart | 5,000 | - | - | | - | - | 5,000 |
| **Executive Directors** | | - | | | | | |
| Mr Mark Simari (Resigned 22/01/18) | 267,839 | - | 10,849 | 22,094 | - | - | 300,782 |
| Mr Brett Cheong (Resigned 31/05/18) | 160,000 | - | - | | - | - | 160,000 |
| Mr Andrew Just (Appointed 31/05/18) | 223,718 | - | - | 11,878 | - | - | 235,596 |
| **Other Key Management Personnel** | | - | | | | | |
| Mr Michael Rice (Resigned 31/05/18) | 250,000 | - | 7,532 | 23,750 | - | - | 281,282 |
| Mr Leonard Kocovic | 275,000 | - | 15,806 | 25,000 | - | - | 315,806 |
| Total | 1,388,502 | - | 34,187 | 90,982 | - | - | 1,513,671 |

## 2017

| | Short-Term Employee Benefits | | | Post Employment Benefits | Long-Term Benefits | Share-Based Payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees | Cash Bonus | Non-Monetary Benefits | Super-annuation | Long Service Leave | Options | Total |
| | $ | $ | $ | $ | $ | $ | $ |
| **Non-Executive Directors** | | | | | | | |
| Mr Shane Tanner | 120,000 | - | - | - | - | - | 120,000 |
| Mr Michael Newton | 13,103 | - | - | 34,500 | - | - | 47,603 |
| Mr Geoffrey Sam | 47,096 | - | - | 4,474 | - | - | 51,570 |
| **Executive Directors** | | | | | | | |
| Mr Mark Simari | 408,000 | - | 27,207 | 30,000 | - | - | 465,207 |
| Mr Brett Cheong | 160,000 | - | - | - | | | 160,000 |
| **Other Key Management Personnel** | | | | | | | |
| Mr Michael Rice | 240,000 | - | 25,842 | 22,800 | - | - | 288,642 |
| Mr Stephen Munday | 255,000 | - | - | 35,000 | - | - | 290,000 |
| Mr Leonard Kocovic | 9,519 | - | - | 865 | - | - | 10,384 |
| Total | 1,252,717 | - | 53,049 | 127,639 | - | - | 1,433,406 |

The elements of emoluments have been determined on the basis of the cost to the Company.

Except as detailed in the Remuneration Report or below, no Director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors and shown in the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

**Directors' Report** *Continued*
For the year ended 30 June 2018

**Directors' Interests**

As at the date of this report the interests of the Directors held either directly or through entities they control, in the securities of the Company are as follows:

| Directors | Fully paid ordinary shares (PGC) |
|---|---|
| Shane Tanner | 850,000 |
| Michael Newton | 403,134 |
| Geoffrey Sam OAM | 1,343,974 |
| Andrew Just | - |
| Brent Stewart | 2,283,466 |

The Directors of the Company are encouraged to hold shares in the Company and are permitted to trade in the Company's securities consistent with the Company's securities trading policy. All Directors sign an agreement with the Company in which they undertake to advise the Company whenever they or a related party trades in the Company's securities.

It is the Company's policy that Directors and Executives of the Company are required to seek the prior written approval of the Board before entering into hedging arrangements in respect to their holdings of company equity instruments.

The Executive or Director must provide full details of any such hedging arrangements for consideration by the Board. The Board will consider each approach for approval on its merits, taking into account the size of the holding, the level of exposure, the repayment requirements and the impact any adverse market conditions may have on the capital structure of the Company.

**Indemnification and Insurance of Directors and Officers**

During the financial year the Company has paid premiums to insure all the Directors and Officers against liabilities for costs and expenses incurred by them in defending any claims arising out of their conduct while acting in the capacity of Director of the Company 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.

**Directors and Officers Indemnity**

The Company has entered into an Indemnity Deed with each of the Directors which will indemnify them against liability incurred to a third party (not being the Company or any related company) where the liability does not arise out of the conduct involving a lack of good faith. The Indemnity Deed will continue to apply for a period of 10 years after a Director ceases to hold office. There is also a Directors' Access and Insurance Deed with each of the Directors pursuant to which a Director can request access to copies of documents provided to the Director whilst serving the Company for a period of 10 years after the Director ceases to hold office. There will be certain restrictions on the Directors' entitlement to access under the deed.

**Proceedings on Behalf of Company**

No person has applied for leave of the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or 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 any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court. The Company was not a party to any such proceedings during the year under section 237 of the *Corporations Act 2001*.

**Corporate Governance Statement**

In accordance with ASX Listing Rule 4.10.3, the Company's 2018 Corporate Governance Statement can be found on its website at www.paragoncare.com.au

**Directors' Report** *Continued*
For the year ended 30 June 2018

### Auditor

RSM Australia Partners was appointed Company auditor on 27 November 2009 and will continue in office in accordance with section 327 of the Corporations Act 2001.

### Non-Audit Services

The Company may decide to engage the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services listed below is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Audit Services | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 221,003 | 122,830 |
| Non Audit Services | | |
| Taxation Services | 106,418 | 36,075 |
| Other Services | | - |

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Signed in accordance with a resolution of the Directors:

Shane Tanner
Chairman
27 August 2018

# 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 for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

**RSM AUSTRALIA PARTNERS**

**P A RANSOM**
Partner

Dated: 27 August 2018
Melbourne, Victoria

# Financial Statements

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **Revenue from continuing operations** | | | |
| Revenue | 3 | 136,747,265 | 117,192,924 |
| Cost of sales | | (81,836,092) | (71,124,867) |
| **Gross profit** | | **54,911,173** | **46,068,057** |
| Other income | 4 | 4,674,896 | 364,325 |
| Operating costs | | (11,575,889) | (7,786,665) |
| Corporate costs | | (1,309,992) | (321,121) |
| Finance costs | | (2,205,128) | (1,792,897) |
| Selling and distribution | | (1,756,150) | (1,302,144) |
| Employee and consultants costs (incl. Directors fees and remuneration) | | (29,070,218) | (20,995,757) |
| **Profit/(loss) before tax** | | **13,668,692** | **14,233,798** |
| Income tax expense | 7 | (2,718,137) | (4,059,037) |
| **Profit/(loss) from continuing operations** | | **10,950,555** | **10,174,761** |
| Other comprehensive income | | | |
| *Items that may be reclassified to Profit or Loss* | | | |
| Gain (Loss) on cash flow hedges and currency translation | | 53,881 | 131,822 |
| **Other comprehensive income for the year, net of tax** | | **53,881** | **131,822** |
| **Total comprehensive income for the year** | | **11,004,436** | **10,306,583** |
| Profit for the period attributable to: | | | |
| Owners of the parent | | 10,950,555 | 10,174,761 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the parent | | 11,004,436 | 10,306,583 |
| **Earnings per share** | | | |
| Basic (cents per share) | 22 | 5.4 | 6.2 |
| Diluted (cents per share) | 22 | 5.4 | 6.2 |

# Consolidated Statement of Financial Position

As at 30 June 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 40,391,579 | 18,555,941 |
| Inventories | 9 | 55,301,467 | 21,742,075 |
| Trade and other receivables | 10 | 45,287,234 | 20,777,567 |
| Other financial assets | 11 | 1,336,858 | - |
| **Total current assets** | | **142,317,138** | **61,075,583** |
| **Non-Current Assets** | | | |
| Plant and equipment | 12 | 12,172,651 | 3,405,391 |
| Deferred tax assets | 7 | 3,702,846 | 2,221,240 |
| Other receivables | 10 | 1,424,676 | 931,176 |
| Intangibles | 13 | 190,130,966 | 98,419,272 |
| **Total non-current assets** | | **207,431,139** | **104,977,079** |
| **Total Assets** | | **349,748,277** | **166,052,662** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 58,499,209 | 25,534,489 |
| Vendor conditional payables | 28 | 1,201,348 | 9,583,817 |
| Interest bearing liability | 15 | 10,742,877 | 8,498,825 |
| Other financial liabilities | 11 | - | 161,123 |
| Provision for Income Tax | | 766,840 | 555,736 |
| Provisions | 16 | 4,514,277 | 1,949,707 |
| **Total current liabilities** | | **75,724,551** | **46,283,697** |
| **Non-current liabilities** | | | |
| Other Payables | 14 | 1,457,454 | 643,134 |
| Vendor conditional payables | 28 | 8,093,298 | 7,282,362 |
| Interest bearing liability | 15 | 94,073,848 | 28,568,954 |
| Provisions | 16 | 256,814 | 583,720 |
| **Total non-current liabilities** | | **103,881,414** | **37,078,170** |
| **Total Liabilities** | | **179,605,965** | **83,361,867** |
| **Net Assets** | | **170,142,312** | **82,690,795** |
| **Equity** | | | |
| Contributed equity | 17 | 156,930,216 | 74,347,530 |
| Reserves | 18 | (100,843) | (154,724) |
| Retained earnings (Accumulated losses) | | 13,312,939 | 8,497,989 |
| **Total Equity** | | **170,142,312** | **82,690,795** |

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

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

| | Share Capital | Currency Translation Reserve | Currency Hedge Reserve | Retained Earnings (Accumulated Losses) | Total Equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 1 July 2016** | **70,636,055** | **38,871** | **(325,417)** | **2,420,726** | **72,770,235** |
| Profit / (loss) for the year | - | - | - | 10,174,761 | 10,174,761 |
| Gain / (loss) on cash flow hedge | - | - | 120,665 | - | 120,665 |
| Gain / (loss) on currency translation | - | 11,157 | - | - | 11,157 |
| **Total comprehensive income for the year** | **-** | **11,157** | **120,665** | **10,174,761** | **10,306,583** |
| Issue of share capital net of transaction costs | 3,711,475 | - | - | - | 3,711,475 |
| Dividend issued in the year | - | - | - | (4,097,496) | (4,097,496) |
| **Balance at 30 June 2017** | **74,347,530** | **50,028** | **(204,752)** | **8,497,991** | **82,690,797** |
| **Balance at 1 July 2017** | **74,347,530** | **50,028** | **(204,752)** | **8,497,991** | **82,690,797** |
| Profit / (loss) for the year | - | - | - | 10,950,555 | 10,950,555 |
| Gain / (loss) on cash flow hedge | - | - | 845,088 | - | 845,088 |
| Gain / (loss) on currency translation | - | (791,207) | - | - | (791,207) |
| **Total comprehensive income for the year** | **-** | (791,207) | **845,088** | **10,950,555** | **11,004,436** |
| Issue of share capital net of transaction costs | 82,582,686 | - | - | - | 82,582,686 |
| Dividend issued in the year | - | - | - | (6,135,604) | (6,135,604) |
| **Balance at 30 June 2018** | **156,930,216** | **(741,179)** | **640,336** | **13,312,942** | **170,142,312** |

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

# Consolidated Statement of Cash Flows

For the year ended 30 June 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 132,449,267 | 117,291,989 |
| Payments to suppliers and employees | | (119,081,307) | (99,403,618) |
| Interest and other items of similar nature paid | | (2,171,697) | (1,792,897) |
| Interest received | | 245,834 | 50,753 |
| Income taxes paid | | (3,883,205) | (4,156,847) |
| Net cash provided by / (used in) operating activities | 8(b) | 7,558,892 | 11,989,380 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of business, net of cash acquired | | (106,824,485) | (2,853,347) |
| Payment for plant and equipment | | (2,761,798) | (1,052,505) |
| Payment for Intangible Assets | | (3,790,111) | (3,523,340) |
| Loan (Advancement) / Repayment | | 500,000 | (500,000) |
| Net cash provided by / (used in) investing activities | | (112,876,393) | (7,929,192) |
| **Cash flows from financing activities** | | | |
| Net proceeds / (Repayments) from borrowings | | 67,748,946 | (1,086,696) |
| Proceeds from issues of securities | | 69,980,020 | - |
| Dividends paid | | (4,695,808) | (3,522,941) |
| Other - share issue costs | | (5,880,020) | (11,540) |
| Net cash provided by / (used in) financing activities | | 127,153,138 | (4,621,177) |
| **Net increase / (decrease) in cash and cash equivalents** | | **21,835,638** | **(560,989)** |
| Cash and cash equivalents at the beginning of the financial year | | 18,555,941 | 19,116,930 |
| Cash and cash equivalents at the end of the financial period | 8(a) | 40,391,579 | 18,555,941 |

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

# Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2018

## NOTE 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Paragon Care Limited and its subsidiaries.

### (a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Paragon Care Limited is a for-profit entity for the purpose of preparing the financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

These financial statements have been prepared under the historical costs convention modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### (b) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by the Company at the end of the reporting period. A controlled entity is any entity over which Company has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.
In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 20 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

### (c) Segment Reporting

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

### (d) Foreign Currency Translation

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except where deferred in equity as a qualifying cash flow or net investment hedge.

### (e) Revenue Recognition

*Sale of goods*

The group manufactures and sells a range of goods to the wholesale and end user market. Sales of goods are recognised when a group entity has delivered product and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Delivery does not occur until the products have been shipped to the customer, the risks of obsolescence and loss have been transferred, the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.
Amounts disclosed as revenue are net of returns, trade allowances, duties and tax paid.

No element of financing is deemed present as the sales are made with a credit term of between 30 and 60 days which is consistent with market practice.

*Service*

Revenue from service is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised under the percentage of completion method, based on the actual service provided as a percentage of the total services to be provided. Interest revenue is recognised on an accrual basis taking into account the interest rates applicable to the financial assets.

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

### (f) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantively enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**(f) Income Tax** (continued)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

*Tax consolidation*

Paragon Care Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the ‘stand-alone taxpayer’ approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2008. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group’s taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

**(g) Leases**

Leases of plant and equipment where the Group as lessee has substantially all the risks and benefits of ownership are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Assets acquired under finance leases are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**(h) Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the Statement of Profit or Loss and Other Comprehensive Income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable.

Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the Statement of Profit or Loss and Other Comprehensive Income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the Statement of Profit or Loss and Other Comprehensive Income.

**(i) Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset’s fair value less costs to sell and value in use,

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**(i) Impairment of Assets** (Continued)

To the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss and Other Comprehensive Income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

**(j) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

**(k) Trade Receivables**

Trade receivables are recognised when the risks and rewards of ownership or provision of services of the underlying sales transactions have passed to customers. This event usually occurs on delivery of product or provision of services to customers. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement 30 days after the end of the month in which the invoice was raised. The collection of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful debts is raised when the Directors consider it is probable that the debt is impaired and that it will not be collected.

**(l) Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are comprised of direct material and direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**(m) Financial Instruments**

*Recognition and initial measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the group becomes a party to the contractual provisions of the instruments.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Those financial instruments entered into by the group are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, canceled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

*Classification and subsequent measurement*

(i) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Trade receivables, being generally on 30 day terms, are recognised and carried at original invoice amount less provision for any uncollectible debts. An estimate for impaired debtors is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(ii) *Financial liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Due to their short term nature trade and other payables are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

*Hedge accounting*

The group designates certain derivatives as either:

(i) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
(ii) Hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

(i) *Fair value hedge*
Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the Statement of Profit or Loss and Other Comprehensive Income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

(ii) *Cash flow hedge*
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. Amounts accumulated in the hedge reserve in equity are transferred to the Statement of Profit or Loss and Other Comprehensive Income in the periods when the hedged item will affect profit or loss.

*Fair value estimation*

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Unless otherwise disclosed in the notes to the financial statements, the carrying amount of the Group's financial instruments approximates their fair value.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**(n) Property, Plant and Equipment**

Each class of property, plant and equipment is stated at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

*Plant and equipment*

Plant and equipment are measured on the historical cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.
The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.
All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

*Depreciation*

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on either a straight-line or diminishing value basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Furniture, Fittings  Equipment | 10–33% |
| Motor Vehicles | 14–25% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Profit or Loss and Other Comprehensive Income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**(o) Investments in Associates**

Associate companies are companies in which the Group has significant influence through holding, directly or indirectly, between 20% and 50% of the voting power of the Company. Investments in associates are accounted for in the financial statements by applying the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the Associate Company. In addition the Group's share of the profit or loss of the Associate Company is included in the Group's profit or loss.

The carrying amount of the investment includes goodwill relating to the associate. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the relation to the Group's investment in the associate.

When the reporting dates of the Group and the associate are different, the associate prepares, for the Group's use, financial statements as of the same date as the financial statements of the Group with adjustments being made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume the recognition of its share of those profits once its share of the profits equals the share of the losses not recognised.

**(p) Intangible Assets**

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition.

Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

*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 benefits over the useful life of the software, generally about three years. Initial TGA registration costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the product, generally 2–3 years.

**(q) Trade and other Payables**

Trade and other payables represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**(r) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

### (s) Employee Benefits

*Wages and salaries and annual leave*

Liabilities in respect of wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' service up to that date.

*Long service leave*

A liability for long service leave is recognised, and is measured as 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 wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national corporate bond rates with terms of maturity that match, as closely as possible, the estimated future cash outflows.

*Superannuation*

The Company contributed to multi-employer industry funds which provide retirement, disability and death benefits for employees. The Company is under no legal obligation to make up any shortfall in any of these funds.

*Share Based Payments*

Share-based compensation benefits may be provided directly by the issue of ordinary shares or options to employees. The fair value of options granted is recognised as an employee benefits expenses with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

The fair value of ASX listed ordinary shares or options is measured by the last sale price of the relevant ordinary shares or options on the ASX on or immediately prior to the date of issue. The fair value of unlisted options at grant date is determined using the Black-Scholes model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, 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 arrangement. An expense is taken up over the period during which the employees become entitled to the option.

### (t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### (u) Contributed Equity

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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are canceled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (v) Earnings per share

*Basic earnings per share*

Basic earnings per share is determined by dividing the operating profit after income tax attributable to the Group 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 by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the year.

### (w) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

### (x) New Accounting Standards for Application in Future Periods

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

### (x) New Accounting Standards for Application in Future Periods (Continued)

| Reference | Title | Summary | Impact | Application Date |
|---|---|---|---|---|
| **AASB 15** | Revenue from Contracts with Customers | This Standard establishes principles (including disclosure requirements) for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. | No material impact envisaged. | 1 January 2018 |
| **AASB 2014–5** | Amendments to Australian Accounting Standards arising from AASB 15 | Consequential amendments arising from the issuance of AASB 15. | No material impact envisaged. | 1 January 2018 |
| **AASB 9** | Financial Instruments | This Standard supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) when applied. It introduces a "fair value through other comprehensive income" category for debt instruments, contains requirements for impairment of financial assets, etc. | No material impact envisaged. | 1 January 2018 |
| **AASB 2014–7** | Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) | Consequential amendments arising from the issuance of AASB 9. | No material impact envisaged. | 1 January 2018 |
| **AASB 16** | Leases | The standard replaces AASB117 "Leases" and for lessees will eliminate the classification of operating leases and finance leases | The Group has commenced its assessment of the impact of AASB 16, however, following the acquisitions of 9 entities during the year, in particular, the last 6 months, the assessment is still in progress. It is expected any assessment will require a review of its current lease agreements and other contracts to assess if there are any embedded operating lease terms.<br><br>As at 30 June 2018, the Group has non-cancellable operating lease commitments of $16,610,885 (refer to note 26). Under AASB 16, the present value of these commitments would potentially be shown as a liability on the balance sheet together with an asset representing its right-of-use. Ongoing lease payments currently presented as an operating expense will be split between depreciation and interest expense. However, the Group has not yet determined to what extent the present value of these commitments will result in the recognition of an asset and a liability for future payments, and its associated quantitative impact to profit and loss. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.<br><br>As a result, the Standard is expected to change EBITDA, but will unlikely materially impact the Group's consolidated net profit after tax.<br><br>The Group will first apply AASB 16 on 1 July 2019 and will report under the new standard in the 30 June 2020 annual financial report. | 1 January 2019 |
| **2016-5** | Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions | Consequential amendments arising from the issuance of International Financial Reporting Standard "Classification and Measurement of Share-based Payment Transactions" by the International Accounting Standards Board (June 2016) | No material impact envisaged. | 1 January 2018 |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 2 Critical accounting estimates and judgements

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

### Impairment of Goodwill

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions. With respect to cash flow projections for the Group's businesses based in Australia, revenue growth rates of 6% have been factored into valuation models for the next five years. This is on the basis of management's expectation of increased government expenditure in both the acute and aged care market sectors, much of which has already been publicly announced, and their belief in the Group's continued ability to capture a significant share of this expenditure. The rates used incorporate allowance for inflation. Pre-tax discount rates of 11.7% have been used in all models. No impairment has been recognised in respect of goodwill at the end of the reporting period.

### Business combinations

Business combinations are initially accounted for on a provisional basis as the consolidated entity has twelve months from acquisition date to finalise acquisition accounting. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity 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 reported.

Further, the conditional payments owing to the vendors is based on the performance of the acquired entity which is measured by the EBITDA growth over a one to two year period. The estimation of the likely conditional payment was based on the consideration of all available information at the reporting date.

*Provision for stock obsolescence*

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.

*Provision for impairment of receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 3 Revenue

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Revenue | | |
| Sale of Goods | 136,501,431 | 117,142,171 |
| Sundry Income | | |
| Interest | 245,834 | 50,753 |
| Total Sundry Income | 245,834 | 50,753 |
| **Total Revenue** | **136,747,265** | **117,192,924** |

## NOTE 4 Other Income

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Write back of vendor earnout payable (i) | 4,072,517 | 268,637 |
| Other income | 602,379 | 95,688 |
| | **4,674,896** | **364,325** |

(i) In June 2018, the conditional payments on the earn outs for Midas Software Solutions and Electro Medical Group were finalised with the respective vendors. The amounts agreed to be paid to the respective vendors was different to the contingent consideration estimated in the final acquisition accounting. Electro Medical Groups final earnout was $695,669 and Midas Software Solutions has no final earnout due. Total final earnout payables due of the two entities is $695,669. The impact was a reduction of the vendor earnout payable, resulting in a writeback of $4,072,517. Refer note 28(c)

During the year ending 30 June 2017 the conditional payments on the earn outs for Western Biomedical and Designs for Vision have been finalised with the respective vendors. The amounts agreed to be paid to the respective vendors was different to the contingent consideration estimated in the final acquisition accounting. The impact was a reduction to the vendor earnout payable resulting in a write back of $268,637 in the prior year. Refer Note 28(c)

## NOTE 5 Expenses

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Profit before income tax expense includes the following specific expenses: | | |
| Depreciation: Plant and equipment | 1,626,733 | 804,533 |
| Amortisation: Website development costs | 25,199 | 24,858 |
| Amortisation: R&D Costs | 29,347 | 14,831 |
| Amortisation: Software development costs | 683,820 | 288,485 |
| Employee Benefits expense | 25,976,379 | 19,172,825 |
| | **28,341,478** | **20,305,532** |

## NOTE 6 Auditors' Remuneration

| | 2018 | 2018 |
|---|---|---|
| | $ | $ |
| During the year the auditor of the Group earned the following remuneration: | | |
| Audit and review of financial reports | 221,003 | 122,830 |
| Tax consulting services | 106,418 | 36,075 |
| Other consulting services | - | - |
| **Total remuneration** | **327,421** | **158,905** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 7 Income Tax

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| (a) Income tax expense / (benefit) | | |
| Current tax | 2,491,444 | 3,600,449 |
| Deferred tax | 308,450 | 621,835 |
| Adjustments for current tax of prior periods | (81,757) | (163,247) |
| | **2,718,137** | **4,059,037** |
| (b) Deferred income tax (revenue) / expense included in income tax expense comprises: | | |
| Decrease / (increase) in deferred tax assets | (385,737) | 110,267 |
| (Decrease) / increase in deferred tax liability | - | - |
| | (385,737) | 110,267 |
| (c) The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows; | | |
| Prima facie income tax payable on profit before income tax at 30% | 4,100,608 | 4,270,140 |
| Add tax effect of: | | |
| • Entertainment expenses | 34,731 | 32,736 |
| • Other non-deductible expenses | 268,076 | - |
| • Other non-assessable income - vendor earn out write back | (1,221,755) | - |
| • Overprovision of income tax in prior year | (81,757) | - |
| Less tax effect of: | | |
| • Non-assessable income | - | (80,592) |
| • (Overprovision) of income tax in prior year | | (163,247) |
| • Other deductible expenses | (381,796) | |
| Income tax expense / (benefit) attributable to profit | **2,718,137** | **4,059,037** |
| (d) Deferred tax assets | | |
| The balance comprises: | | |
| • Provisions / accruals | 11,498 | 42,520 |
| • Provision for employee entitlements | 1,508,570 | 813,824 |
| • Prepayments | (10,968) | (243) |
| • Foreign exchange gains / losses | (558,423) | (37,477) |
| • Provisions for stock | 139,623 | - |
| • Other assets | 269,659 | 755,391 |
| • Share issue costs | 1,892,092 | 273,399 |
| • Fixed Assets | 297,678 | (3,834) |
| • Carry forward tax losses | 153,117 | 377,660 |
| Balance after set off of deferred tax assets and (liabilities) | **3,702,846** | **2,221,240** |
| Deferred tax asset not recognised comprise: | | |
| Unrecognised tax losses | - | - |
| Timing differences | - | - |
| | - | - |

The amount of deferred tax assets which may be realised in the future is dependant on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 8 Statement of Cash Flows

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| (a) Cash at bank and on hand | | 40,391,579 | 18,555,941 |
| (b) Reconciliation of operating profit (loss) after income tax to net cash used in operating activities | | | |
| Operating profit after income tax | | 10,950,555 | 10,174,761 |
| Non-cash items | | | |
| Depreciation and amortisation | | 2,365,100 | 1,132,707 |
| Write-back of provision for vendor earnout. | 28(c) | (4,072,517) | (268,637) |
| Currency translation movement | | - | 11,157 |
| Change in operating assets and liabilities | | | |
| (Increase)/ decrease in trade debtors | | (4,654,543) | 54,130 |
| (Increase)/ decrease in inventory | | (2,578,963) | (655,856) |
| Increase /(decrease) in provisions | | 267,342 | 27,234 |
| Increase /(decrease) in accounts payable and other payables | | 6,446,986 | 1,611,694 |
| Increase/(decrease) in current tax provision | | (1,165,068) | (97,810) |
| **Net cash outflows from operating activities** | | **7,558,892** | **11,989,380** |

(c) Non-cash financing and investing activities
Other Non-cash share issues

In financial year ended 30 June 2018

55,432 shares as part consideration for the acquisition of Medtek Pty Ltd at a price of $0.9020 per share.
470,488 shares as part consideration for the earn-out payable to the vendors of the Western Biomedical business acquired in October 2015 at an issue price of $0.9020 per share.
550,898 shares as part consideration for the acquisition of the Anaequip Medical Trust business at a price of $0.8350 per share.
8,823,338 shares as part consideration for the acquisition of Surgical Specialties business at a price of $0.7250 per share.
10,600,000 shares as part consideration for the acquisition of REM Systems business at a price of $0.7673 per share.

In financial year ended 30 June 2017

707,214 shares as part consideration for the acquisition of Meditron at a price of $0.7050 per share.
2,709,046 shares as part consideration for the acquisition of Midas Software at a price of $0.7100 per share.
902,784 shares as part consideration for the acquisition of Electro Medical Group at a price of $0.8400 per share.

(d) Financing Facilities
Refer Note 19 (c)

## NOTE 9 Inventories

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Current | | |
| Raw materials | 1,947,047 | 292,236 |
| Work in progress | 31,198 | 45,810 |
| Finished goods | 53,788,633 | 21,532,017 |
| Provision for inventory obsolescence | (465,411) | (127,988) |
| | **55,301,467** | **21,742,075** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 10 Trade and Other Receivables

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Trade and other receivables | 37,966,651 | 19,485,685 |
| GST receivable | 2,321,126 | 433,866 |
| Other receivables | 4,999,456 | 858,016 |
| | **45,287,233** | **20,777,567** |

**(a) Impaired trade receivables**

As at 30 June 2018 current trade receivables of the Group with a nominal value of $nil (2017: $nil) were impaired:

The ageing of these receivables is as follows:

| | 2018 | 2017 |
|---|---|---|
| Up to 3 months | - | - |
| 4 to 6 months | - | - |
| Over 6 months | - | - |
| | **-** | **-** |

Movements in the provision for impairment of receivables are as follows:

| | 2018 | 2017 |
|---|---|---|
| At 1 July | - | - |
| Change for the year | - | - |
| Amounts written off as uncollectable | - | - |
| **As at 30 June** | **-** | **-** |

**(b) Past due but not impaired**

As at 30 June 2018, trade receivables of $ 19,492,629 (2017: $7,314,840) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

| | 2018 | 2017 |
|---|---|---|
| Up to 3 months | 18,660,440 | 6,919,786 |
| 3 to 6 months | 832,188 | 395,054 |
| **Total overdue** | **19,492,628** | **7,314,840** |

**(c) Other receivables**

These amounts generally arise from transactions outside the usual operating activities of the group.

**(d) Fair value and credit risk**

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Non-current** | | |
| Other Receivables | 1,424,676 | 931,176 |
| | **1,424,676** | **931,176** |

## Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2018

### NOTE 11 Other Financial Assets / Liabilities

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Current assets** | | |
| Investments in listed shares | 21,342 | - |
| Foreign exchange forward contracts — Cash flow hedges | 1,315,516 | - |
| | **1,336,858** | **-** |
| **Current liabilities** | | |
| Foreign exchange forward contracts — Cash flow hedges | - | 161,123 |
| | **-** | **161,123** |

**Foreign exchange forward contracts — Cash flow hedges**

Companies within the group import materials from the United States, Europe and Asia. In order to protect against exchange rate movements, the group has entered into forward exchange contracts to purchase US dollars and Euro. These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when payments for major shipments are scheduled to be made.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the group adjusts the initial measurement of the component recognised in the balance sheet by removing the related amount from other comprehensive income.

### NOTE 12 Plant and Equipment

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Non-Current Assets** | | |
| Furniture, Fittings and Equipment—at cost | 17,111,134 | 6,315,345 |
| Less accumulated depreciation | (5,623,958) | (3,352,819) |
| Motor Vehicles—at cost | 1,485,052 | 1,094,810 |
| Less accumulated depreciation | (799,579) | (651,945) |
| **Total Plant and Equipment** | **12,172,649** | **3,405,391** |
| Movement in carrying amount during the year: | | |
| Beginning of year WDV | 3,405,391 | 2,982,624 |
| Additions at cost | 2,761,797 | 1,187,658 |
| Acquisition through business combinations | 7,681,309 | 156,022 |
| Disposals | (49,113) | (116,380) |
| Depreciation | (1,626,733) | (804,539) |
| **End of year WDV** | **12,172,650** | **3,405,391** |
| **(a) Leased assets** | | |
| Non-current assets includes the following amounts where the group is a lessee under a finance lease: | | |
| **Leasehold equipment** | | |
| Cost | 3,913,954 | 1,116,953 |
| Less accumulated depreciation | (556,180) | (292,650) |
| **Written down value** | **3,357,774** | **824,303** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

| NOTE 13 Intangible Assets | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| Website development costs | | 140,732 | 11,090 |
| Identifiable Intangible Assets - Contracts (with business acquisitions) | | 2,493,016 | - |
| R&D Projects (Under construction) | | 1,920,799 | 1,072,141 |
| Software development costs | | 6,345,648 | 4,221,076 |
| Goodwill | | 179,230,770 | 93,114,965 |
| | | **190,130,965** | **98,419,272** |
| Website development costs | | | |
| Beginning of year | | 11,090 | 35,948 |
| Additions at cost | | 154,841 | - |
| Amortisation | | (25,199) | (24,858) |
| **End of year** | | **140,732** | **11,090** |
| *The website development costs are amortised over two years.* | | | |
| Identifiable Intangible Assets - Contracts (with business acquisitions) | | | |
| Beginning of year | | - | - |
| Additions—REM Systems | | 2,493,016 | - |
| Amortisation | | - | - |
| **End of year** | | **2,493,016** | **-** |
| R&D Projects (Under construction) | | | |
| Beginning of year | | 1,072,141 | 308,344 |
| Additions at cost | | 878,005 | 778,628 |
| Amortisation | | (29,347) | (14,831) |
| **End of year** | | **1,920,799** | **1,072,141** |
| Software development costs | | | |
| Beginning of year | | 4,221,076 | 777,813 |
| Additions | | 2,808,393 | 2,779,518 |
| Acquisition through business combinations | | - | 952,230 |
| Amortisation | | (683,820) | (288,485) |
| **End of year** | | **6,345,649** | **4,221,076** |
| Goodwill | | | |
| Beginning of year | | 93,114,965 | 79,916,800 |
| Additions | 28(a) | 88,211,545 | 12,036,331 |
| Finalisation of Acquisition Accounting Adjustment (Refer Note 28b) | | (2,491,677) | 1,161,834 |
| Foreign exchange difference | | 395,937 | - |
| **End of year** | | **179,230,770** | **93,114,965** |

Goodwill

After initial recognition, 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. Goodwill is attributable to the profitability of the business acquired. Impairment testing is undertaken by assessing the cash generated from the businesses and estimating the value of the businesses using cash flow projections. Refer note 2 for further details.

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 14 Trade and Other Payables

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Current | | |
| Trade creditors | 41,711,338 | 18,529,369 |
| Other creditors | 10,572,007 | 3,562,154 |
| Deferred purchase price | 1,577,838 | - |
| Deferred revenue | 2,108,203 | 2,144,595 |
| Accrued expenses | 2,529,822 | 1,298,371 |
| | **58,499,208** | **25,534,489** |
| Non-Current | | |
| Other Creditors | 1,457,454 | 643,134 |
| | **1,457,454** | **643,134** |

## NOTE 15 Borrowings

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Current | | |
| Secured | | |
| Trade Finance Facility | 5,859,214 | 6,263,812 |
| Bank Loans | 4,000,000 | 2,000,000 |
| Lease Liabilities | 883,663 | 235,013 |
| | 10,742,877 | 8,498,825 |
| **Total Current Borrowings** | **10,742,877** | **8,498,825** |
| Non-Current | | |
| Secured | | |
| Bank Loans | 92,321,937 | 28,000,000 |
| Lease Liabilities | 1,751,911 | 568,954 |
| | 94,073,848 | 28,568,954 |
| **Total Non-Current Borrowings** | **94,073,848** | **28,568,954** |
| (a) Secured liabilities and assets pledged as security | | |
| The total secured liabilities (current and non-current) are as follows: | | |
| Trade Finance Facility | 5,859,214 | 6,263,812 |
| Bank Loans | 96,321,937 | 30,000,000 |
| Lease Liabilities | 2,635,573 | 803,967 |
| | **104,816,724** | **37,067,779** |

The bank has a first registered company charge over all assets and undertakings including uncalled capital of the consolidated entity. Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 16 Provisions

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Current | | |
| Employee entitlements | 4,514,277 | 1,949,707 |
| | **4,514,277** | **1,949,707** |
| Non-Current | | |
| Employee entitlements | 256,814 | 583,720 |
| | **256,814** | **583,720** |

## NOTE 17 Contributed Equity

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Fully paid ordinary shares | 156,930,216 | 74,347,530 |

### (a) Ordinary shares

The Company has unlimited authorised capital with no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

**Movements in ordinary share capital in the Company over the past two years were as follows:**

| Date | | Number of Shares | $ |
|---|---|---|---|
| **30-Jun-16** | **Balance** | **159,934,518** | **70,636,055** |
| 18-Jul-16 | Issue of shares as part consideration for the Meditron acquisition earn-out at a price of $0.7050 per share | 707,214 | 500,000 |
| 25-Jul-16 | Issue of shares as part consideration for the Midas Software Solutions acquisition at a price of $0.7100 per share | 2,709,046 | 1,904,459 |
| 6-Oct-16 | Issue of shares pursuant to the company's dividend re-investment plan price of $0.8350 per share | 343,802 | 275,042 |
| 7-Oct-16 | Issue of shares as part consideration for the EMG acquisition at a price of $0.8400 per share | 902,784 | 740,554 |
| 6-Apr-17 | Issue of shares pursuant to the company's dividend re-investment plan price of $0.7900 per share | 420,645 | 299,499 |
| 30-Jun-17 | Accumulated share issue costs incurred during 2017 (net of tax) | - | (8,079) |
| **30-Jun-17** | **Closing Balance** | **165,018,009** | **74,347,530** |
| 14-Aug-17 | Issue of shares as part consideration for the acquisition of Medtek Pty Ltd at a price of $0.9020 per share | 55,432 | 50,000 |
| 14-Aug-17 | Issue of shares for part consideration for the earn-out payable to the vendors of the Western Biomedical business acquired in October 2015 at an issue price of $0.9020 per share. | 470,488 | 424,380 |
| 6-Oct-17 | Issue of shares pursuant to the company's dividend re-investment plan price of $0.8870 per share | 670,677 | 594,890 |
| 25-Jan-18 | Issue of shares as part consideration for the acquisition of the Anaequip Medical Trust business at a price of $0.8350 per share | 550,898 | 460,000 |
| 19-Feb-18 | Issue of shares pursuant to the company's entitlement issue to institutional investors of 1 new share for each 2.8 shares held at a price of $0.7250 per share | 25,077,179 | 18,180,955 |
| 19-Feb-18 | Placement to sophisticated and professional investors at issue price of $0.7250 per share. | 36,694,414 | 26,603,450 |
| 2-Mar-18 | Issue of shares as part consideration for the acquisition of Surgical Specialties business at a price of $0.7250 per share | 8,823,338 | 6,396,920 |
| 5-Mar-18 | Issue of shares pursuant to the company's entitlement issue to retail investors of 1 new share for each 2.8 shares held at a price of $0.7250 per share | 15,704,966 | 11,386,100 |
| 5-Mar-18 | Issue of shares of the shortfall of the company's entitlement issue to retail investors of 1 new share for each 2.8 shares held at a price of $0.7250 per share | 18,778,957 | 13,614,744 |
| 12-Apr-18 | Issue of shares to pursuant to the company's dividend re-investment plan price of $0.702 per share | 1,203,572 | 844,908 |
| 12-Jun-18 | Issue of shares as part consideration for the acquisition of REM Systems business at a price of $0.7673 per share | 10,600,000 | 8,133,752 |
| 30-Jun-18 | Accumulated share issue costs incurred during 2018 (net of tax) | - | (4,107,412) |
| **30-Jun-18** | **Closing Balance** | **283,647,930** | **156,930,217** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 17 Contributed Equity (Continued)

### (b) Capital Management

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 gearing ratios for the years ending 30 June 2018 and 2017 were as follows:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Total Borrowings | 104,816,725 | 37,067,779 |
| Less Cash and Cash Equivalents | (40,391,579) | (18,555,941) |
| Net Debt | 64,425,146 | 18,511,838 |
| Total Equity | 170,142,312 | 82,690,795 |
| **Total Capital** | **234,567,458** | **101,202,633** |
| Gearing Ratio | 27% | 18% |

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

## NOTE 18 Reserves

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Currency hedge reserve | 640,336 | (204,752) |
| Currency translation reserve | (741,179) | 50,028 |
| | **(100,843)** | **(154,724)** |

| Movements in currency hedge reserve were as follows: | | |
|---|---|---|
| Beginning of year | (204,752) | (325,418) |
| Revaluation | 845,088 | 120,666 |
| **End of year** | **640,336** | **(204,752)** |

| Movements in currency translation reserve were as follows: | | |
|---|---|---|
| Beginning of year | 50,028 | 38,871 |
| Revaluation | (791,207) | 11,157 |
| **End of year** | **(741,179)** | **50,028** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 19 Financial Risk Management

The Group's activities expose it to a variety of financial risk: market risk (including 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. Derivative financial instruments are used by the Group to hedge exposure to exchange rate risk associated with foreign currency transactions. Derivatives are used exclusively for hedging purposes, ie not as trading or other speculative instruments.

### (a) Market Risk

(i) *Forward exchange risk*
The Group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated rates. The objective in entering into the forward exchange contracts is to protect the economic entity against unfavourable exchange rate movements for the purchases undertaken in foreign currencies.

The Group's risk management policy is to hedge between 40% and 100% of anticipated net cash flows in foreign currency for the subsequent 12 months.

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

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Forward exchange contracts | | |
| • Buy foreign currency (cash flow hedges) | | |
| AUD to USD | 24,738,161 | 8,579,418 |
| AUD to Euro | 7,461,300 | 7,142,562 |
| NZD to USD | 11,700,000 | - |
| NZD to AUD | 10,658,720 | - |
| AUD to NZD | 654,206 | - |
| | **55,212,387** | **15,721,980** |

(ii) *Interest rate risk*
The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt obligations with the floating interest rate. The Company's policy is not to actively manage interest cost, however, the Company has $30,635,574 borrowings at fixed rates. At 30 June 2018 $74,181,152 (2017: $6,263,812) of the Company's debt is at a variable rate of interest.

The Company's bank loans outstanding, totaling $96,321,937 (2017: $30,000,000), are principal and interest payment loans. Monthly cash outlays of approximately $287,000 (2017: $106,000) per month are required to service the interest payments. An official increase/decrease in interest rates of 50 (2017: 50) basis points would have an adverse/favourable effect on the profit before tax of $342,000 (2017: $10,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis forecasts. In addition, minimum principal repayments of $4,000,000 (2017: $2,000,000) are due during the year ended 30 June 2019 (2017: 30 June 2018).

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

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Financial Assets | | |
| Cash and cash equivalents (interest bearing) | 40,391,579 | 18,555,941 |
| Financial Liabilities | | |
| Interest bearing liabilities - variable rate (current) | (9,859,215) | (8,263,812) |
| Interest bearing liabilities - fixed rate (current) | (883,663) | (235,013) |
| Interest bearing liabilities - variable rate (non current) | (64,321,937) | - |
| Interest bearing liabilities - fixed rate ( non current) | (29,751,911) | (28,568,954) |
| | **(104,816,726)** | **(37,067,779)** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 19 Financial Risk Management (Continued)

### (b) 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.

### (c) 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*
The Group had access to the following borrowing facilities at the end of the reporting period:

| | **2018** | 2017 |
|---|---|---|
| | **$** | **$** |
| **Floating Rate** | | |
| Expiring within one year | | |
| Total Facility | 16,500,000 | 8,000,000 |
| Undrawn Amount | 6,640,785 | 1,736,188 |
| Expiring beyond one year | | |
| Total Facility | 79,500,000 | - |
| Undrawn Amount | 15,178,063 | - |
| **Fixed Rate** | | |
| Expiring within one year | | |
| Total Facility | 883,663 | - |
| Undrawn Amount | - | - |
| Expiring beyond one year | | |
| Total Facility | 32,251,910 | 60,053,967 |
| Undrawn Amount | 2,500,000 | 29,250,000 |
| **Total** | | |
| **Total Facility** | **129,135,573** | **68,053,967** |
| **Undrawn Amount** | **24,318,848** | **30,986,188** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 19 Financial Risk Management (Continued)

*Maturities of financial liabilities*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the undiscounted cashflows.

On 8 June 2018 National Australia Bank granted Paragon Care Ltd credit approval to increase their lending agreement facility to $126,500,000 to support organic growth and the company's acquisition strategy.

| Contractual maturities of financial liabilities | Weighted average interest rate | Less than 6 Months | 6 to 12 Months | Between 1 and 2 Years | Between 2 and 6 Years | Total contractual cash flows |
|---|---|---|---|---|---|---|
| | % | $ | $ | $ | $ | $ |
| **2018** | | | | | | |
| Non-derivatives | | | | | | |
| Non-interest bearing | - | 59,700,557 | - | 8,093,298 | - | 67,793,855 |
| Variable rate | 3.3 | 7,859,215 | 2,000,000 | 4,000,000 | 60,321,937 | 74,181,152 |
| Fixed rate | 4.3 | 441,831 | 441,831 | 883,663 | 28,868,248 | 30,635,573 |
| **Total** | **3.6** | **68,001,603** | **2,441,831** | **12,976,961** | **89,190,185** | **172,610,580** |
| **2017** | | | | | | |
| Non-derivatives | | | | | | |
| Non-interest bearing | - | 35,118,306 | - | 7,282,362 | - | 42,400,668 |
| Variable rate | 3.1 | 6,263,812 | - | - | - | 6,263,812 |
| Fixed rate | 3.6 | 1,124,333 | 1,110,680 | 2,235,013 | 26,333,941 | 30,803,967 |
| **Total** | **3.2** | **42,506,451** | **1,110,680** | **9,517,375** | **26,333,941** | **79,468,447** |

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.
AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(ii) inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) (level 2); and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2018 and 30 June 2017.

| At 30 June 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Assets | | | | |
| Forward foreign exchange contracts | - | 1,315,516 | - | 1,315,516 |
| **Total assets** | **-** | **1,315,516** | **-** | **1,315,516** |
| Liabilities | | | | |
| Forward foreign exchange contracts | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** |

| At 30 June 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Assets | | | | |
| Forward foreign exchange contracts | - | - | - | - |
| **Total assets** | **-** | **-** | **-** | **-** |
| Liabilities | | | | |
| Forward foreign exchange contracts | - | 161,123 | - | 161,123 |
| **Total liabilities** | **-** | **161,123** | **-** | **161,123** |

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

For the year ended 30 June 2018

### Note 20 Related Party Disclosure

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Subsidiaries

| | Ownership 30 June 2018 | Ownership 30 June 2017 |
|---|---|---|
| **Parent Entity** | | |
| Paragon Care Limited | | |
| **Subsidiaries** | | |
| Paragon Care International Pty Ltd | 100% | - |
| Medtek Pty Ltd | 100% | - |
| Paragon Care Group Pty Ltd | 100% | 100% |
| GM Medical Pty Ltd [1.] | 100% | 100% |
| Paragon Medical Ltd [# 1.] | 100% | 100% |
| Designed for Vision Limited [#1.] | 100% | - |
| REM Systems Limited [#1.] | 100% | 100% |
| REM Systems Pty Ltd [#9.] | 100% | 100% |
| Meditron Pty Ltd [1.] | 100% | 100% |
| Western Biomedical Pty Ltd [1.] | 100% | 100% |
| Designs For Vision Holdings Pty Ltd [1.] | 100% | 100% |
| Designs For Vision (Aust) Pty Ltd [4.] | 100% | 100% |
| Designs For Vision Pty Ltd [5.] | 100% | 100% |
| Electro Medical Group Pty Ltd [1.] | 100% | 100% |
| MIDAS Software Solutions Pty Ltd [1.] | 100% | 100% |
| Immulab Pty Ltd [1.] | 100% | - |
| Insight Surgical Pty Ltd [1.] | 100% | - |
| MedTech Solution Pty Ltd [1.] | 100% | - |
| Walkit Pty Ltd [1.] | 100% | - |
| Surgical Specialties Holdings Pty Ltd [1.] | 100% | - |
| Surgical Specialties Group Pty Ltd [1.] | 100% | - |
| Surgical Specialties Pty Ltd [6.] | 100% | - |
| Therapy Specialties Pty Ltd [6.] | 100% | - |
| Surgical Specialties (NZ) Ltd [6.] | 100% | - |
| Therapy Specialties Ltd [6.] | 100% | - |
| Pergamon Technologies Pty Ltd [1.] | 100% | - |
| Immuno Pty Ltd [1.] | 100% | - |
| Immuno Limited [7.] | 100% | - |
| Labgear Australia Pty Ltd [1.] | 100% | - |
| Labgear New Zealand Limited [8.] | 100% | - |
| | | |
| Paragon Medical Pty Ltd | 100% | 100% |
| Scanmedics Pty Ltd [* 2.] | 100% | 100% |
| Axishealth Pty Ltd [* 2.] | 100% | 100% |
| Rapini Pty Ltd [* 2.] | 100% | 100% |
| Paragon Healthcare Pty Ltd [2.] | 100% | 100% |
| Iona Medical Products Pty Ltd [* 2.] | 100% | 100% |
| Volker Australia Pty Ltd [* 3.] | 100% | 100% |
| L.R. Instruments Pty Ltd [* 2.] | 100% | 100% |
| Richards Medical Pty Ltd [* 2.] | 100% | 100% |
| Unikits Pty Ltd [* 2.] | 100% | 100% |

*All entities are incorporated in Australia except for Paragon Medical Ltd which is incorporated in New Zealand.*

[*] Dormant company
[#] Incorporated in New Zealand
[1.] Subsidiary of Paragon Care Group Pty Ltd
[2.] Subsidiary of Paragon Medical Pty Ltd
[3.] Subsidiary of Iona Medical Products Pty Ltd
[4.] Subsidiary of Designs For Vision Holdings Pty Ltd
[5.] Subsidiary of Designs For Vision (Aust) Pty Ltd
[6.] Subsidiary of Surgical Specialties Group Pty Ltd
[7.] Subsidiary of Immuno Pty Ltd
[8.] Subsidiary of Labgear Australia Pty Ltd
[9.] Subsidiary of REM Systems Pty Ltd
[10.] Subsidiary of Paragon Medical Ltd

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## Note 20 Related Party Disclosure (Continued)

### (b) Ultimate Parent

Paragon Care Limited is a public company listed on ASX and details of major shareholders are shown in Shareholder Information.

### (c) Transactions with related parties.

*Employees and Contractors*
Contributions to superannuation funds on behalf of employees are disclosed in the Remuneration Report in the Directors' Report.

### (d) Loan to related parties.

The parent entity has provided inter-company loans to its subsidiaries for working capital purposes. The inter company loans are repayable to the parent entity at call and no interest is payable. Details of the loans are shown below.

| | **2018** | 2017 |
|---|---|---|
| | **$** | **$** |
| Loans to / (from): | | |
| Paragon Care Group Pty Ltd | 132,924,454 | 52,093,172 |
| Designs For Vision (Aust) Pty Ltd | 1,852,396 | 1,166,231 |
| Meditron Pty Ltd | 475,163 | 350,233 |
| Western Biomedical Pty Ltd | 1,100 | 1,100 |
| | **135,253,113** | **53,560,736** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## NOTE 21 Key Management Personnel Disclosures

### (a) Details of Key Management Personnel

Details of the Key Management Personnel remuneration and services agreements are provided in the Remuneration Report section of the Directors' Report.

The following table discloses the aggregate remuneration of the Key Management Personnel of the Group. Details by director and executive are shown in the Remuneration Report section of the Directors' Report.

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Short term employee benefits | 1,422,689 | 1,305,767 |
| Post employment benefits | 90,982 | 127,639 |
| Others — long term benefits | - | - |
| Share-based payments | - | - |
| | **1,513,671** | **1,433,406** |

### (b) Equity Holdings of Key Management Personnel

Details of the Key Management Personnel holdings of ordinary shares in the Company is shown in the following table:

| Directors | Balance 1 July 2017 | Shares Acquired | Shares Disposed | Other Changes | Balance at 30 June 2018 (or date of resignation) |
|---|---|---|---|---|---|
| S F Tanner | 723,500 | 126,500 | - | - | 850,000 |
| A Just*** | - | - | - | - | - |
| M A Simari** | 1,004,778 | 5,442 | | - | 1,010,220 |
| M C Newton | 375,548 | 27,586 | - | - | 403,134 |
| B A Cheong* | 2,642,640 | - | (344,827) | - | 2,297,813 |
| G J Sam OAM | 715,377 | 628,597 | - | - | 1,343,974 |
| B M Stewart*** | - | - | - | 2,823,466 | 2,823,466 |
| **Other key management personnel** | | | | | |
| M G Rice* | 134,058 | - | - | - | 134,058 |
| L Kocovic | - | - | - | - | - |

| Directors | Balance 1 July 2016 | Shares Acquired | Shares Disposed | Other Changes | Balance at 30 June 2017 (or date of resignation) |
|---|---|---|---|---|---|
| S F Tanner | 610,000 | 113,500 | - | - | 723,500 |
| M A Simari | 1,707,611 | 8,167 | (711,000 ) | - | 1,004,778 |
| M C Newton | 307,699 | 67,849 | - | - | 375,548 |
| B A Cheong | 2,642,640 | - | - | - | 2,642,640 |
| G J Sam OAM | 585,526 | 129,851 | - | - | 715,377 |
| **Other key management personnel** | | | | | |
| M G Rice | 134,058 | - | - | - | 134,058 |
| S J Munday | 38,239 | - | - | - | 38,239 |

*** Appointed 31 May 2018
** Resigned 2 January 2018
* Resigned 30 May 2018

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## Note 22 Earnings per share

| | 2018 | 2017 |
|---|---|---|
| | Cents | Cents |
| (a) Basic (loss) / Earnings per share (cents per share) | 5.4 | 6.2 |
| (b) Diluted (loss) / Earnings per share (cents per share) | 5.4 | 6.2 |
| (c) Reconciliation of earnings used in calculating earnings per share | | |
| Profit / (Loss) used in calculating basic earnings per share | 10,950,556 | 10,174,761 |
| Profit / (Loss) used in calculating diluted earnings per share | **10,950,556** | **10,174,761** |
| (d) Weighted average number of shares used as the denominator | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 203,113,038 | 164,137,722 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | **203,113,038** | **164,137,722** |
| (e) Dividends per share (cents per share) | | |
| Final dividend for the year ended 30 June 2017 (2017: 30 June 2016) of 1.9 cents (2017: 1.4 cents) per ordinary share | 3,153,342 | 2,286,931 |
| Interim dividend for the year ended 30 June 2018 (2017: 30 June 2017) of 1.1 cents (2017: 1.1 cents) per ordinary share | 2,982,262 | 1,810,565 |
| | **6,135,604** | **4,097,496** |
| (f) Franking Credits | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% | **9,688,713** | **8,749,714** |

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 provision for tax at the reporting date
- franking debits that will arise from the payment of dividends recommended by the Board at the reporting date

## Note 23 Parent Entity Disclosures

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| (a) Financial Information | | |
| Profit for the Year | (2,132,282) | (2,514,743) |
| Total Comprehensive Income | (2,132,282) | (2,514,743) |
| Current Assets | 11,268 | 15,325 |
| Total Assets | 124,042,027 | 51,746,495 |
| Current Liabilities | (2,149,826) | (123,014) |
| Total Liabilities | (348,610) | (746,808) |
| Shareholders Equity | | |
| Issued Capital | 155,169,893 | 74,347,530 |
| Reserves | (51,713) | - |
| Retained Earnings | (31,424,764) | (23,344,379) |
| Total Equity | 123,693,417 | 51,003,151 |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## Note 23 Parent Entity Disclosures (Continued)

b) Guarantees

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

The parent entity has also given unsecured guarantees in respect of:
(i) Finance leases of subsidiaries amounting to $nil (2017 — $nil)

c) Other Commitments
The Company has no commitments to acquire property, plant and equipment.

d) Contingent Liabilities
The parent entity did not have any contingent liabilities as at 30 June 2018.

## Note 24 Contingent Liabilities

Since the last annual reporting date, there have been no material changes of any contingent liabilities or contingent assets. The Group has bank guarantees outstanding totaling $1,070,787 (2017 $717,166)

## Note 25 Subsequent Events

On 5 July 2018 the company purchased Lovell Surgical Pty Ltd for a $1 million cash payment. The business manufactures surgical kits which are sold by distributors including Insight Surgical Pty Ltd (a wholly owned subsidiary of Paragon Care Limited) to hospitals, day surgeries and other medical facilities across Australia. Lovell has manufacturing plants located in Melbourne operated by 40 staff; at the date of acquisition Lovell had net assets in excess of $700,000 and was operating at breakeven. The vendors of Lovell may be paid further consideration in September 2021 equal to 3.5 times FY21 EBITDA should Lovell earnings in each of the years between FY18 and FY21 exceed the preceding year.

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

On 27 August 2018 the company announced an agreement to issue 50,418,386 shares at $0.91 to Pioneer Pharma (Australia) Pty Ltd wholly owned subsidiary of China Pioneer Pharma Holdings Limited for consideration of $45,880,731. The shares will be allotted on 14 September 2018.

No other matters or circumstances have arisen since the year ended 30 June 2018 that significantly affect or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Note 26 Commitments

Lease Commitments

The group leases various offices under non-cancellable operating leases expiring within one to eight years. The leases have various terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

| | 2018 $ | 2017 $ |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 3,453,155 | 1,645,983 |
| Later than one year but not later than five years | 9,563,232 | 5,123,994 |
| Later than five years | 3,594,408 | 857,251 |
| | **16,610,795** | **7,627,228** |

## Note 27 Segment Reporting

The consolidated entity 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 consolidated entity does not have any other reporting segments.



**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## Note 28 Business Combinations

(a) Summary of business combinations during the period:

| | REM Systems $ | Immulab $ | Immuno $ | Labgear $ | Surgical Specialties $ | Medtech Solutions $ | Anaequip Medical $ | Insight Surgical $ | Medtek $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|
| Purchase Consideration - cash | 53,059,844 | 6,614,372 | 1,905,885 | 5,753,573 | 24,887,665 | 2,554,600 | 1,820,064 | 5,302,500 | 649,558 | 102,548,061 |
| Purchase Consideration - contingent | 4,804,561 | - | - | 1,162,777 | 2,125,960 | - | - | 505,679 | - | 8,598,977 |
| Purchase Consideration - shares | 9,711,590 | - | - | - | 6,396,920 | - | 460,000 | - | 50,000 | 16,618,510 |
| | **67,575,995** | **6,614,372** | **1,905,885** | **6,916,350** | **33,410,545** | **2,554,600** | **2,280,064** | **5,808,179** | **699,558** | **127,765,548** |
| Net Working Capital | 22,899,502 | 2,977,632 | 589,026 | 687,568 | 2,110,684 | (85,688) | 360,240 | 1,044,276 | 207,887 | 30,791,127 |
| Identifiable Intangible - Contract | 2,493,016 | - | - | - | - | - | - | - | - | 2,493,016 |
| Plant and Equipment | 3,697,953 | - | 132,469 | 74,162 | 3,277,016 | - | 176,267 | 93,946 | 142,777 | 7,594,590 |
| Employee Entitlements | (415,186) | (759,889) | (257,466) | (93,603) | (261,057) | - | (120,486) | (45,065) | (62,634) | (2,015,386) |
| Deferred Tax Asset | 176,979 | 227,967 | 77,240 | 28,081 | 111,935 | - | 36,146 | 13,519 | 18,790 | 690,657 |
| Goodwill on consolidation | 38,723,731 | 4,168,662 | 1,364,616 | 6,220,143 | 28,171,966 | 2,640,288 | 1,827,897 | 4,701,503 | 392,738 | 88,211,545 |
| | **67,575,995** | **6,614,372** | **1,905,885** | **6,916,351** | **33,410,544** | **2,554,600** | **2,280,064** | **5,808,179** | **699,558** | **127,765,549** |
| Reconciliation to Cash flow: | | | | | | | | | | |
| Consideration of Purchase | 67,575,995 | 6,614,372 | 1,905,885 | 6,916,350 | 33,410,545 | 2,554,600 | 2,280,064 | 5,808,179 | 699,558 | 127,765,548 |
| Conditional Payment | (4,804,561) | - | - | (1,162,777) | (2,125,960) | - | - | (505,679) | - | (8,598,977) |
| Equity Funding | (9,711,590) | - | - | - | (6,396,920) | - | (460,000) | - | (50,000) | (16,618,510) |
| Net Outflow of cash | 53,059,844 | 6,614,372 | 1,905,885 | 5,753,573 | 24,887,665 | 2,554,600 | 1,820,064 | 5,302,500 | 649,558 | 102,548,061 |

| **Vendor Payables** | 2018 $ | 2017 $ |
|---|---|---|
| Vendor Payable from acquisitions during the year | 8,598,977 | 7,828,362 |
| Vendor Payable from prior period acquisitions | 695,669 | 9,037,517 |
| **Total Vendor Payables** | **9,294,646** | **16,865,879** |
| Current Vendor Payables | 1,201,348 | 9,583,517 |
| Non-current Vendor Payables | 8,093,298 | 7,282,362 |
| | **9,294,646** | **16,865,879** |

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

### Note 28 Business Combinations (Continued)

## REM Systems

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 53,059,844 |
| Vendor Earnout Estimate | 4,804,561 |
| Ordinary Shares in PCG 12,656,256 @ $0.7673 | 9,711,590 |
| | **67,575,995** |
| **Fair value and carrying value of net assets acquired** | |
| Net working Capital | 22,899,502 |
| Plant and Equipment | 3,697,953 |
| Identifiable Intangible – Contract | 2,493,016 |
| Employee Entitlements | (415,186) |
| Deferred Tax Asset | 176,979 |
| Goodwill on Consolidation | 38,723,731 |
| | **67,575,995** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 67,575,995 |
| Conditional Payments due in May 2020 and 2021 (a) | (4,804,561) |
| Equity Funding | (9,711,590) |
| Net outflow of cash | 53,059,844 |

(a) The vendors are entitled to a payment of 4.5 times the EBITDA growth from 2017 in 2019 and 2020. The payments are calculated on the 12 months trading to 31 March 2020 and 2021. Any payment made in respect of FY20 is deducted from any amount payable in FY21. The payment is uncapped. The contingent consideration was estimated by calculating the present value of the future expected cashflows. The likely range is anticipated to be between $3.8 and $5.8 million

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Immuno Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 1,905,885 |
| | 1,905,885 |
| **Fair value and carrying value of net assets acquired** | |
| Net working Capital | 589,026 |
| Plant and Equipment | 132,469 |
| Identifiable Intangible | - |
| Employee Entitlements | (257,466) |
| Deferred Tax Asset | 77,240 |
| Goodwill on Consolidation | 1,364,616 |
| | 1,905,885 |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 1,905,885 |
| Net outflow of Cash | 1,905,885 |

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Note 28 Business Combinations** (Continued)

## Immulab Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 6,614,372 |
| | **6,614,372** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | 2,977,632 |
| Employee Entitlements | (759,889) |
| Deferred Tax Asset | 227,967 |
| Goodwill on Consolidation | 4,168,662 |
| | **6,614,372** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 6,614,372 |
| Net outflow of Cash | 6,614,372 |

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Labgear Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 5,753,573 |
| Vendor Earnout Estimate | 1,162,777 |
| | **6,916,350** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | 687,568 |
| Plant and Equipment | 74,162 |
| Employee Entitlements | (93,603) |
| Deferred Tax Asset | 28,081 |
| Goodwill on Consolidation | 6,220,143 |
| | **6,916,350** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 6,916,350 |
| Conditional Payment due Sept 2020 (a) | (1,162,777) |
| Net outflow of cash | 5,753,573 |

(a) The vendors are entitled to a payment of 4.5 times the EBITDA FY19 less the initial purchase price. The payment is uncapped. The contingent consideration was estimated by calculating the present value of the future expected cashflows. The likely range is anticipated to be between $700,000 and $1.4 million

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Surgical Specialties Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 24,887,665 |
| Vendor Earnout Estimate | 2,125,960 |
| Ordinary Shares in PCG 8,823,338@ $0.725 | 6,396,920 |
| | **33,410,545** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | 2,110,684 |
| Plant and Equipment | 3,277,016 |
| Employee Entitlements | (261,057) |
| Deferred Tax Asset | 111,935 |
| Goodwill on Consolidation | 28,171,966 |
| | **33,410,545** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 33,410,545 |
| Conditional Payment due March 2020 and 2021 (a) | (2,125,960) |
| Equity Funding | (6,396,920) |
| Net Outflow of Cash | 24,887,665 |

(a) The vendors are entitled to a payment of 4.5 times the EBITDA growth between CY18 and CY19. The payments are calculated on the 12 months trading to 31 Dec 2019 and 2020. Any payment made in respect of 2019 is deducted from any amount payable in 2020. The total payment is uncapped. The contingent consideration was estimated by calculating the present value of the future expected cashflows. The likely range is anticipated to be between $1.1 and $3.1 million

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Medtech Solutions Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 2,554,600 |
| | **2,554,600** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | (85,688) |
| Goodwill on Consolidation | 2,640,288 |
| | **2,554,600** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 2,554,600 |
| Net Outflow of Cash | 2,554,600 |

### Impact of acquisition on the results of the Group

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

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Anaequip Medical Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 1,820,064 |
| Ordinary Shares in PCG 550,898@ $0.835 | 460,000 |
| | **2,280,064** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | 360,240 |
| Plant and Equipment | 176,267 |
| Employee Entitlements | (120,486) |
| Deferred Tax Asset | 36,146 |
| Goodwill on Consolidation | 1,827,897 |
| | **2,280,064** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 2,280,064 |
| Equity Funding | (460,000) |
| Net Outflow of Cash | 1,820,064 |

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Insight Surgical Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 5,302,500 |
| Vendor Earnout Estimate | 505,679 |
| | **5,808,179** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | 1,044,276 |
| Plant and Equipment | 93,946 |
| Employee Entitlements | (45,065) |
| Deferred Tax Asset | 13,519 |
| Goodwill on Consolidation | 4,701,503 |
| | **5,808,179** |
| **Reconciliation to cashflow** | |
| Consideration of Purchase | 5,808,179 |
| Conditional Payment due September 2018 | (505,679) |
| Net Outflow of Cash | 5,302,500 |

(a) The vendors are entitled to a payment of 3.5 times the EBITDA growth between FY17 and FY18. The payment is uncapped. The contingent consideration was estimated by calculating the present value of future expected cashflows.

### Impact of acquisition on the results of the Group

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

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

### Provisional amounts

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

**Note 28 Business Combinations** (Continued)

## Medtek Pty Ltd

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

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash and Cash Equivalents | 649,558 |
| Ordinary Shares in PCG 55,432 @ $0.905 | 50,000 |
| | **699,558** |
| **Fair value and carrying value of net assets acquired** | |
| Net Working Capital | 207,887 |
| Plant and Equipment | 142,777 |
| Employee Entitlements | (62,634) |
| Deferred Tax Asset | 18,790 |
| Goodwill on Consolidation | 392,739 |
| | **699,558** |
| **Reconciliation to cashflow** | |
| Consideration of purchase | 699,558 |
| Equity Funding | (50,000) |
| Net Outflow of Cash | 649,558 |

### Impact of acquisition on the results of the Group

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

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

**Notes to and forming part of the Financial Statements** *Continued*
For the year ended 30 June 2018

## Note 28 Business Combinations (Continued)

During the year ended 30 Jun 2018, the numbers presented for Net working capital, Plant and equipment, Employee Entitlements, Deferred Tax Asset and Goodwill on consolidation, including the estimated of vendor earn out presented as provisional amounts for the business combinations of MIDAS Software Solutions and Electro Medical Group as at 30 June 2017 were finalised following completion of the fair valuation of assets acquired and forecasting of earnings for earn out purposes.

In July 2017, the provisional fair value of assets and liabilities acquired for Midas Software Solutions were finalised resulting in a reduction of goodwill in respect of this acquisition of $2,514,844. This reduction reflects a reassessment of the conditional vendor payments.

In October 2017, the provisional fair value of assets and liabilities acquired for Electro Medical Groups were finalised resulting in a increase of goodwill in respect of this acquisition of $23,166 and a corresponding increase in the Purchase Consideration - cash.

| | MIDAS Software Solutions | Electro Medical Group | Total |
|---|---|---|---|
| | $ | $ | $ |
| Purchase Consideration - cash | - | 3,464,104 | 3,464,104 |
| Purchase Consideration - contingent | 1,974,860 | 2,792,658 | 4,767,518 |
| Purchase Consideration - shares | 1,904,459 | 740,553 | 2,645,012 |
| | **3,879,319** | **6,997,316** | **10,876,635** |
| | | | |
| Net Working Capital | (30,000) | 417,298 | 387,298 |
| Identifiable Intangible - Software | 952,230 | - | 952,230 |
| Plant and Equipment | 5,000 | 173,541,65 | 178,542 |
| Employee Entitlements | (66,092) | (199,748) | (265,840) |
| Deferred Tax Asset | 19,828 | 59,924 | 79,752 |
| Goodwill on consolidation | 2,998,354 | 6,546,300 | 9,544,653 |
| | **3,879,319** | **6,997,316** | **10,876,635** |
| | | | |
| Reconciliation to Cash flow: | | | |
| Consideration of Purchase | 3,879,319 | 6,997,316 | 10,876,635 |
| Conditional Payment | (1,974,860) | (2,792,658) | (4,767,518) |
| Equity Funding | (1,904,459) | (740,553) | (2,645,012) |
| Net Outflow of cash | - | **3,464,104** | **3,464,104** |

(c) Vendor Conditional Payable write-back

During the year ending 30 June 2018 the conditional payments on the earn outs for Western Biomedical and Designs for Vision finalised in during the year ended 30 June 2017 were paid to the respective vendors totaling $9,583,817 in cash $9,159,436 and in shares $424,380. The impact was a reduction to the vendor earnout payable, resulting in a write back of $268,637 in the prior year.

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

## Note 29 Deed of Cross Guarantee

All entities of the consolidated entity, as listed in note 20(a), 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 Instrument 2016/785 (as amended) issued by the Australian Securities and Investments Commission ('ASIC'). The above companies represent a 'Closed Group' for the purposes of the Class Order, 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 17 and Consolidated Statement of Financial Position on page 18 are the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position of the 'Closed Group'.

# Directors' Declaration

*For the year ended 30 June 2018*

In the Directors' opinion:

a) The financial statements and notes set out on pages 16 to 55 are in accordance with the *Corporations Act 2001*, including;

(i) Complying with Accounting Standards, the Corporation Regulations 2001 and other mandatory professional requirements; and

(ii) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

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

The Directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Shane Tanner
Chairman
27 August 2018

# Auditor's Report

# Independent Audit Report

For the year ended 30 June 2018

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, which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year..

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 consolidated entity's financial position as at 30 June 2018 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.

**Independent Audit Report** *Continued*
For the year ended 30 June 2018

RSM

**Key Audit Matters (Continued.)**

| Key Audit Matter | How our audit addressed this matter |
|---|---|
| ***Accounting for Business Combinations***<br>Refer to Note 28 in the financial statements | |
| During the year, the consolidated entity completed a number of acquisitions as described in Note 28 of the consolidated financial statements. The consolidated entity has determined these acquisitions to be business combinations for which the purchase price includes contingent consideration. The purchase price is allocated between acquired assets and liabilities (including identified intangible assets), at their respective fair values and goodwill on consolidation of $88.2 million.<br>This was considered a key audit matter as the accounting for the transactions is complex and involves significant judgements in applying the accounting standards. This includes the recognition and valuation of consideration paid, including contingent consideration, the identification and valuation of intangible assets, and the determination of the fair value of the tangible assets acquired. | Our procedures to assess the accounting treatment of the acquisition included:<br>• Obtaining the share purchase agreements and other associated documents and ensuring that the transactions had been accounted for in compliance with AASB 3 Business Combinations.<br>• Testing the initial consideration to the signed purchase agreements and to bank statements;<br>• Assessing the appropriateness of the fair values of the transactions including evaluating the recognition of the contingent consideration included in the purchase price to determine a final adjustment within the measurement period;<br>• Assessing the forecasts used for determining the contingent consideration and comparing these against actual performance where available;<br>• Assessing the consolidated entity's determination of the fair value of the remaining assets and liabilities, having regard to the completeness of assets and liabilities identified, and the reasonableness of any underlying assumptions in their respective valuations, including useful lives of the intangible and tangible assets acquired; and<br>• Reviewing the disclosures in Note 28 to the financial statements in order to assess compliance with the disclosure requirements of AASB 3. |
| ***Impairment of Goodwill***<br>Refer to Note 13 in the financial statements | |
| The consolidated entity has goodwill of $179.2 million relating to its numerous acquisitions in recent years.<br>This was considered a Key Audit Matter due to the materiality of the goodwill balance, and because the directors' assessment of the 'value in use' of the cash generating unit ("CGU") involves judgements about the future underlying cash flows of the business and the discount rates applied to it.<br>For the year ended 30 June 2018 management have performed an impairment assessment over the goodwill balance by:<br>• calculating the value in use for the CGU using a discounted cash flow model. This model used cash flows (revenues, expenses and capital expenditure) for the CGU for 5 years, with a terminal growth rate applied to the 5th year. The cash flows were then discounted to net present value using the Company's weighted average cost of capital (WACC); and<br>• comparing the resulting value in use of the CGU to their respective book values. | Our audit procedures in relation to management's impairment assessment involved the assistance of our Corporate Finance team where required, and included:<br>• 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;<br>• Assessing the valuation methodology used;<br>• Challenging the reasonableness of key assumptions, including the cash flow projections, exchange rates, discount rates, and sensitivities used; and<br>• 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. |

**Independent Audit Report** *Continued*
For the year ended 30 June 2018

**Key Audit Matters (Continued.)**

| Key Audit Matter | How our audit addressed this matter |
|---|---|
| ***Impairment of Goodwill (Continued.)***<br>Refer to Note 13 in the financial statements | |
| 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.<br>Management have concluded there is no impairment of the carrying value of Goodwill. | |
| ***Inventory Valuation***<br>Refer to Note 9 in the financial statements | |
| The consolidated entity's inventory balance, as disclosed in Note 9, consists primarily of finished goods of various medical equipment held for distribution.<br><br>Inventory is valued at the lower of cost or net realisable value. The assessment of the net realisable value of inventory requires a significant degree of management judgment. It includes assumptions concerning the provision for obsolescence, as well as future market conditions based on changing customer needs and market trends.<br><br>On the basis of the factors set out above, the valuation of inventory was considered to be a key audit matter. | Our audit procedures in relation to the existence and valuation of inventory included:<br>• Evaluating management assumptions and estimates applied to the provision for obsolescence through analysis of inventory ageing and historical sales levels by inventory product from the date the product was purchased in conjunction with assessing the quantity of products;<br>• Assessing the company's application of its policy for determining the provision for obsolescence;<br>• Performing analytical procedures in respect of inventory holdings and inventory turnover; and<br>• Testing the sales prices of inventory to ensure inventory is not being sold at less than cost. |

**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 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

**Responsibilities of the Directors for the Financial Report**

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

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

**Independent Audit Report** *Continued*
For the year ended 30 June 2018

**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: http://www.auasb.gov.au/auditors_responsibilities/ar2.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 2018.

In our opinion, the Remuneration Report of Paragon Care Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

*Responsibilities*

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

RSM

**RSM AUSTRALIA PARTNERS**

**P A RANSOM**
Partner

Dated: 27 August 2018
Melbourne, Victoria

# Shareholder Information

# Shareholder Information

For the year ended 30 June 2018

The shareholders information set out below was applicable as at 30 July 2018.

**(a) Distribution of equity securities**

Analysis of numbers of equity security holders by size of holding:

| Number of Units | PGC |
|---|---|
| 1 to 1,000 | 919 |
| 1,001 to 5,000 | 1,584 |
| 5,001 to 10,000 | 896 |
| 10,001 to 100,000 | 1,857 |
| 100,001 and Over | 205 |
| **Total Holders** | **5,461** |

**(b) Equity Security Holders**

Twenty largest quoted equity security holders:
Ordinary shares

Ordinary Shares

| Name | Units | % of Issued Shares |
|---|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 37,974,827 | 13.4 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 26,874,180 | 9.5 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 16,874,344 | 5.9 |
| NATIONAL NOMINEES LIMITED | 11,030,805 | 3.9 |
| CITICORP NOMINEES PTY LIMITED | 9,378,661 | 3.3 |
| CS THIRD NOMINEES PTY LIMITED | 7,961,528 | 2.8 |
| ARGO INVESTMENTS LIMITED | 6,304,156 | 2.2 |
| JMT INVESTMENT GROUP VIC PTY LTD | 10,559,006 | 3.7 |
| NEGRONI HOLDINGS PTY LTD | 4,235,191 | 1.5 |
| JOHN RADLEY & SHIRLEY SCHOLLUM & PAUL SCHOLLUM | 3,950,899 | 1.4 |
| GRILLS INVESTMENTS PTY LTD | 3,773,585 | 1.3 |
| SHEMOZEL PTY LTD | 3,642,351 | 1.3 |
| LORA FALLS PTY LTD | 3,000,000 | 1.1 |
| BRENT MICHAEL STEWART & MICHELLE JANE STEWART | 2,823,466 | 1.0 |
| SHIRLEY MAY SCHOLLUM | 2,601,820 | 0.9 |
| JOHN KEITH RADLEY & PAUL ANDREW SCHOLLUM | 2,120,000 | 0.7 |
| MR BRIAN DUNCAN WILSHER | 1,927,281 | 0.7 |
| BMSN PTY LTD | 1,764,664 | 0.6 |
| POSSE INVESTMENT HOLDINGS PTY LIMITED | 1,720,000 | 0.6 |
| UBS NOMINEES PTY LTD | 1,715,219 | 0.6 |

| | | |
|---|---|---|
| Total Top 20 PGC Shareholders | 160,231,983 | 56.5 |
| **Balance of Register** | **123,415,947** | **43.5** |
| Grand Total | 283,647,930 | 100.0 |

**Shareholder information** *Continued*
For the year ended 30 June 2018

### (c) Voting Rights

The voting rights attaching to each class of equity securities are set out below:

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

### d) Substantial Holders

The voting rights attaching to each class of equity securities are set out below:

| Name | Units | % of Issued Ordinary Shares |
|---|---|---|
| Karst Peak Capital Limited and Adam Gregory Leitzes | 24,036,171 | 8.5 |
| TOTAL SUBSTANTIAL SHAREHOLDERS | 24,036,171 | 8.5 |
| | | |
| **Total PGC Shares** | **283,647,930** | |

### (e) Corporate Governance Statement

In accordance with ASX Listing Rule 4.10.3, the Company's 2018 Corporate Governance Statement can be found on its website at www.paragoncare.com.au/corporate-governance-statement/

ParagonCare

paragoncare.com.au