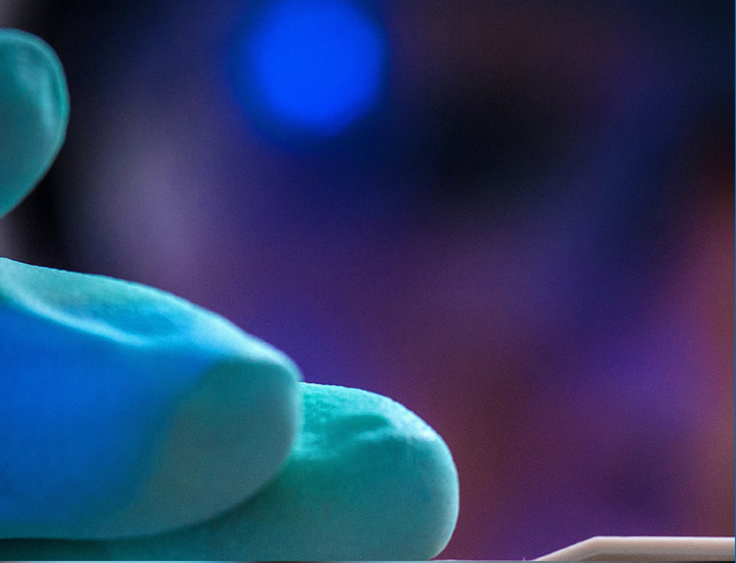

ParagonCare

Annual Report
2020

Health. Covered.

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

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

About Us

Striving to deliver world-class technology and support across all healthcare sectors, Paragon Care's vision is to provide advanced solutions to improve patient experience and user workflows. By leveraging our expertise, agility and customer partnerships we are committed to finding the right solutions to achieve better outcomes every day.

Covering healthcare across four strategic pillars

Specialty Diagnostics

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

Specialty Devices

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

Capital Consumables

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

Service and Technology

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

Contents

Corporate Directory

Directors	Shane Tanner - Chairman Geoffrey Sam OAM Brent Stewart Mark Simari
Company secretary	Melanie Leydin
Registered office	Level 4 96-100 Albert Road South Melbourne VIC 3205 Telephone: 1300 369 559 Telephone: (03) 8833 7800 Facsimile: (03) 8833 7890
Share register	Link Market Services Limited Level 13, Tower 4, 727 Collins Street Melbourne VIC 3000 Telephone:1300 554 474 Facsimile: (02) 9287 303 Website: www.linkmarketservices.com.au
Auditor	RSM Australia Partners Level 21, 55 Collins Street Melbourne VIC 3000 Website: www.rsmi.com.au
Solicitors	SOHO Lawyers Level 5, 124 Exhibition Street Melbourne VIC 3000
Bankers	National Australia Bank
Stock exchange listing	Paragon Care Limited shares are listed on the Australian Securities Exchange (ASX code: PGC)
Website	www.paragoncare.com.au
Corporate Governance Statement	The directors and management are committed to conducting the business of Paragon Care Limited in an ethical manner and in accordance with the highest standards of corporate governance. Paragon Care Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations. The Company's 2020 Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report, can be found at: www.paragoncare.com.au/corporate-governance-statement/

Chairman's Report

On behalf of the Board of Paragon Care Limited, I am pleased to present to you our 2020 Annual Report.

The financial year ended 30th June 2020 was again challenging– both for external and internal reasons. Externally, during the last quarter of the financial year, the impact of COVID-19 led to the deferment of elective surgery – a key part of Paragon's product offering. However, the Company adapted well in replacing a considerable amount of this 'lost' revenue – albeit at lower gross margins.

The Company also experienced considerable internal challenges during the first six months of the financial year with a poor implementation of its new ERP system as well as unacceptable delays in implementing the restructure of our (then) 14 individual businesses into 4 pillars. These delays naturally impacted the implementation of the Company's operating cost out program.

Following major changes to the Senior Leadership Team in December 2019, our new CEO, CFO and Senior Team members have made impressive strides in addressing all the Company's outstanding 'internal' issues. In particular:

- The 4 pillars of Devices, Diagnostics, Capital & Consumables and Service & Technology are now successfully in operation, each with very talented management teams.
- Considerable warehouse rationalisation has occurred in Victoria and New South Wales
- Significant operating cost reduction has taken place and this program will run through until December 2020.
- Debtors that peaked at $60m following the roll out of the new ERP system, have now returned to normality – around $30m or 45 days sales outstanding.

Our new CEO, Phil Nicholl (who was previously head of our Device division) and his senior team have been thoroughly diligent in not only 'right sizing' the company's cost base, but also developing a 'can do' and positive culture within our near 400 strong workforce.

On behalf of the Board, I would like to thank our customers, our medical equipment partners, our staff and shareholders for their continued support. Shareholders should look forward to the 2021 Financial Year with confidence. The Company continues to be focused on organic growth through new product offerings, maximising our warehouse and operating cost base and ensuring dividends become part of our shareholder offering as soon as possible.

Yours faithfully,

Shane Tanner
Chairman

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Paragon Care Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

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

Shane Tanner	Non-Executive Chairman
Geoffrey Sam OAM	Non-Executive Director
Brent Stewart	Non-Executive Director
Mark Simari (appointed 27 November 2019)	Non-Executive Director
Bruce Bian (resigned 20 August 2020)	Former Non-Executive Director
Michael Newton (resigned 30 June 2020)	Former Non-Executive Director
Andrew Just (resigned 27 November 2019)	Former Managing Director and Chief Executive Officer

Principal Activities

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

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

Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2020	Consolidated 2019
	$'000	$'000
Final dividend for the year ended 30 June 2018 of 2.0 cents per ordinary share	-	6,044
Interim dividend for the year ended 30 June 2019 of 1.1 cents per ordinary share	-	3,708
	-	9,752

Review of operations

The loss for the Group after providing for income tax amounted to $77,269,000 (30 June 2019: $14,386,000).

	2020	2019	Change from FY 19
	$'000	$'000	%
Revenue from continuing operations			
Revenue	231,689	236,009	(1.8%)
Cost of sales	(144,874)	(140,981)	2.8%
Gross profit	**86,815**	**95,028**	**(8.6%)**
Gross profit margin %	37.5%	40.3%	-
Other income	320	1,737	-
Operating expenses	(64,232)	(68,492)	-
Normalised earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA')	**22,903**	**28,273**	**(19.0%)**
Abnormal expenses	(84,989)	-	-
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	(62,086)	28,273	-
Depreciation and amortisation	(8,053)	(10,009)	-
Interest expense	(7,064)	(5,949)	-
Profit/(loss) before tax	**(77,203)**	**12,315**	**-**
Tax (expense)/benefit	5,603	(3,453)	-
Profit/(loss) after tax from continuing operations	**(71,600)**	**8,862**	**-**
Loss after tax from discontinued operations	(5,669)	(23,248)	
Loss after tax for the year attributable to owners	**(77,269)**	**(14,386)**	**-**

Directors' Report *Continued*
For the year ended 30 June 2020

Revenue from continuing operations rebounds from initial COVID-19

Revenue for the year reached $231.7 million (2019: $236.0 million) which, given the impact of COVID-19 and suspension of elective surgery during much of the last quarter, was well ahead of the Group's internal forecasts when COVID-19 first impacted.

Gross margin lower due to COVID-19 and foreign currency movements

Whilst management was able to replace much of the elective surgery lost revenue with new income streams (e.g. PPE sales), the gross margins on the new revenue were at a lower level than the lost revenue during the final quarter of the FY20 year. Despite this, the Group's gross margin for FY20 was still a respectable 37.5%.

Normalised EBITDA

Following changes to the Senior Leadership Team in January 2020, the Group finally experienced significant restructure of its operations and cost base. Paragon's 14 individual businesses were restructured into 4 Pillars – Devices, Diagnostics, Capital & Consumables and Service & Technology. This restructure is now driving real efficiency gains in both the Group's cost base and its improved offering of products to the market. These cost and efficiency improvements and savings will continue well into the FY21 year. Similarly to revenue, the final normalised EBITDA result of $22.9 million (2019: $28 million) was significantly ahead of where the Group's internal forecasts were when COVID-19 impacted in March 2020.

Reductions in continuing operations overhead expenses

Management has continued to deliver significant long-term savings through the cost out program initiated last year. The savings programs being implemented now target a much greater scope of savings than originally envisaged, and as a consequence, they have incurred significant implementation costs and lead to the write-off of significant assets discussed in detail in the following paragraphs.

COVID-19 impact and cost management

The Group initiated several cost management strategies in the early stages of the COVID-19 pandemic. This includes salary and fees reductions between 20% for staff and 30% for board and leadership team across the last quarter of FY20 as well as rent reductions negotiated with landlords and travel bans put in place before border closures were initiated by governments. The Group also qualified and received $2.98 million in government assistance to ensure eligible staff received JobKeeper support.

Abnormal Expenses

During the year the Group's new leadership team reviewed many parts of the corporate strategy, and this when combined with the impact of COVID-19 has seen the Group simplify its strategy by closing down many non-strategic projects initiated over the last 18 months. The Group is modifying its intended restructure to focus on its core products, operations, and markets. This refocus and the impact of COVID-19 has resulted in a write down or write-off of significant amounts of assets this financial year.

- The simplification of corporate strategy has necessitated the closure of a number of non-strategic projects started in the last 18 months to focus resources and management efforts at our core products and customer segments to rebuild the business. These strategic decisions, which the Group believes will drive business growth in financial year 2021 and beyond, have seen asset write-offs of $8.5 million of historical costs capitalised or investments in relation to business or project now being closed.
- The significant restructure underway in the business saw $3 million of restructuring and redundancy costs incurred in the first half of this financial year. It has seen further write-offs and provisions for restructure and redundancies relating to the cost reduction process of $6 million booked in the second half as the program picked up pace with significant warehouse closures in Victoria and New South Wales. Lastly the refocusing onto core products and customer segments combined with the reduction of warehouse space has seen write-offs of inventory, assets, and customer balances of $7.9 million.
- COVID-19 has also impacted the business. The Group has kept the market updated during the course of this pandemic so shareholders will already be aware that the closure of medical facilities to non-essential staff and cancellation of elective surgery hit the Group's sales hard initially. Shareholders will also be aware that the leadership team undertook expense management steps to manage through that crisis and that the return of elective surgery in most states has lifted sales in the final months of this financial year. As the pandemic now looks likely to continue in some way through FY21, the leadership team has refocused sales efforts and modified operations to ensure the Group continues to grow in market segments not impacted and deliver positive earnings returns overall.
- JobKeeper has not only allowed the Group to maintain staff salaries at 80% levels during the initial months of the pandemic (70% for the Board and leadership team) but also to maintain breakeven cash flows across the worst of the initial COVID-19 impacts on the business. Like many companies, we have and continue to renegotiate with our bank to increase our funding limits and reduce covenant testing during the COVID-19 pandemic. However, we have also been adversely impacted from the continued low interest period with an interest rate swap entered into in FY19 becoming significantly above current and expected market interest rates. This has required a derivative liability to be recognised in the balance sheet of $4.6 million. This $4.6 million along with $0.8 million fees and charges capitalized from prior banking arrangements have been recognised in the profit and loss this year.

Directors' Report *Continued*
For the year ended 30 June 2020

Goodwill Impairment

The Group's goodwill on acquisitions impairment testing has been impacted by both the slower cash generation expected as the economy slowly recovers from the pandemic and the increased discount rates which need to be applied to future cash flows because of the uncertainty around the length and depth of the impacts of the pandemic. This has seen a once- off abnormal impairment charge this year of $54 million in the profit and loss. One of the causes of the overall goodwill impairment was the reduction in future expected cash flows due to the loss of business in Western Biomedical which is the subject of ongoing litigation by Paragon Care against the Western Biomedical vendor.

Discontinued Operations

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

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

The COVID-19 pandemic has impacted our community in devastating ways; it has been no less devastating financially or economically, as our significant asset write-downs attest to. However, its has also highlighted the need for a strong, well- funded national healthcare system.

Paragon Care is playing its small part in the COVID-19 pandemic response. Our customers continue to rely on our ability to source and deliver products, including at this critical time Personal Protective Equipment. Our Lovell surgical manufacturing facilities are involved in the creation of sterile COVID-19 testing swab packages. Our Immulab manufacturing facilities continue to supply reagent red blood cells, monoclonal blood grouping reagents and ancillary products. Our Total Communications technology solutions are continuing to assist aged care facilities with the digital recording and monitoring of their service delivery to that vulnerable segment of our population.

Whilst some of our products and services have been impacted by COVID-19 and whilst we are currently experiencing that impact in the midst of our restructuring, the market segment in which we operate has never been more recognised and important.

The Board is confident that in this nationally critical market, with the renewed strategic focus on core products, customer service and with its highly skilled and dedicated staff, the Group will see a solid performance notwithstanding COVID-19 in FY21 and a return to dividend payments in the near term.

Significant changes in the state of affairs

During the year, the Company made a change to its leadership team which resulted in a review of corporate strategy. The strategic review combined with the impacts of COVID-19 has seen the Company simplified its strategy, closing down many projects initiated over the last 18 months. The Company is modifying its intended restructure to focus on its core products, operations, and markets. This refocus and the impact of COVID-19 have resulted in the discontinuance and write-off of the MIDAS software business and impairment or write-off totalling $91.8 million of net assets. For further details please see the Review of operations section of this Directors' report.

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

Directors' Report *Continued*
For the year ended 30 June 2020

Matters subsequent to the end of the financial year

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

The land and buildings situated at 19-21 Peninsula Boulevard, Seaford VIC was sold on the 3 August 2020. As at the reporting date the property was actively for sale and the property was classified as held-for-sale.

On 26 August 2020, the Group received approval from its bankers for an amendment to its banking facilities. This has resulted in a relaxation of the Group's obligation to comply with the existing facility covenants through to September 2021. The amendment also resulted in the deferment of the Group's quarterly facility repayments until December 2021, totalling $6 million.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Directors' Report *Continued*
For the year ended 30 June 2020

Information on Directors

Name:	**Shane Tanner**
Title:	Non-Executive Chairman
Qualifications:	FCPA, ACIS, MAICD
Experience and expertise:	Shane was one of the Co-Founders of Paragon Care Limited and has considerable experience at both senior executive and board level, bringing more than 25 years' experience in healthcare and strategy. Shane has orchestrated and been responsible for numerous small and large-scale acquisitions. He has also helped to establish and guide a number of significant businesses. Shane is currently Chairman of Guardian Alphabet Holdco Pty Ltd (formerly a ASX listed company under the name of Zenitas Healthcare Limited). Previously, Shane was CEO of Symbion Health, one of Australia's largest diagnostic businesses and Chairman of Vision Eye Institute.
Other current directorships:	Victory Offices Limited (ASX: VOL) and Cronos Australia Limited (CAU)
Former directorships (last 3 years):	Vision Eye Institute, Funtastic Limited, Rhythm Biosciences Limited
Special responsibilities:	Member of Nomination and Remuneration Committee and Member of Investment Review Committee
Interests in shares:	850,000 Fully Paid Ordinary Shares at 30 June 2020
Interests in rights:	None

Name:	**Geoffrey Sam OAM**
Title:	Non-Executive Chairman
Qualifications:	BCom, M.Hospital Administration, M.Economics and Social Studies, FAICD
Experience and expertise:	Geoffrey has held numerous successful ASX listed board positions including Chairman of Money 3, Director of Hutchison's Childcare Services and Managing Director of Nova Health. Prior to his appointments to ASX listed companies, Geoffrey undertook numerous Chief Executive positions at Adelaide based hospitals. He is currently the Co-Founder and Director of 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)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Investment Review Committee and Member of Audit and Risk Committee
Interests in shares:	1,736,417 Fully Paid Ordinary Shares at 30 June 2020
Interests in rights:	None

Name:	**Brent Stewart**
Title:	Non-Executive Director
Qualifications:	B Sc, B Psych, FAICD
Experience and expertise:	Brent is an experienced company executive and director having occupied numerous senior executive and board roles over the past 25 years. He established and grew a successful company in Australia and New Zealand (Market Equity Pty Ltd) before selling to a large multinational group (Aegis PLC). Brent has a long association with various segments of the healthcare sector in Australia and Internationally. Currently, Brent occupies Non-Executive roles at HBF Health Ltd, Etherington Inc and Argonaut Ltd.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	2,983,466 Fully Paid Ordinary Shares at 30 June 2020
Interests in rights:	None

Directors' Report *Continued*
For the year ended 30 June 2020

Name:	**Mark Simari**
Title:	Non-Executive Director (appointed 27 November 2019)
Qualifications:	Bachelor of Business (Accounting)
Experience and expertise:	Mark Simari is an experienced and accomplished professional in the health industry and has over 12 years' Board experience in a diverse range of organisations, including not-for profits. Mark was the former Chief Executive Officer and Managing Director and Co-Founder of Paragon Care during his tenure (between 2008 and 2018). He was instrumental in Paragon Care becoming one of the largest independent healthcare suppliers in Australian and New Zealand Market, creating a healthcare platform spanning across capital equipment, consumables, devices and service and maintenance. Mark has also held various directorship positions in other companies such as Tali Digital Limited, Social Investment Australia Limited, Sage Capital Group Pty Ltd, InterPrac Financial Planning Pty Ltd and DKN Financial Group. Mark is presently the Chairman of Unisono Limited and Akita Consulting. He also holds advisory roles with Fruitlink Pty Ltd.
Other current directorships:	None
Former directorships (last 3 years):	Novita Healthcare Limited (now Tali Digital Ltd)
Special responsibilities:	Chair - Audit & Risk Committee Member – Nomination & Remuneration Committee Member – Investment Committee
Interests in shares:	391,561 Fully Paid Ordinary Shares at 30 June 2020
Interests in rights:	None

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

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

Name:	**Ms Melanie Leydin**
Title:	Company Secretary
Qualifications:	BBus (Acc. Corp Law) CA FGIA
Experience and expertise:	Melanie Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants, Fellow of the Governance Institute of Australia and is a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of Leydin Freyer. The practice provides outsourced company secretarial and accounting services to public and private companies across a host of industries including but not limited to the Resources, technology, bioscience, biotechnology and health sectors. Melanie has over 25 years' experience in the accounting profession and over 15 years as a Company Secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies and shareholder relations.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Management Committee		Investment Review Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Shane Tanner	12	12	4	4	-	-	-	-
Geoffrey Sam OAM	12	12	-	-	2	2	-	-
Brent Stewart	12	12	4	4	2	2	-	-
Bruce Bian	12	12	-	-	-	-	-	-
Mark Simari	6	7	-	-	-	-	-	-
Michael Newton	12	12	4	4	2	2	-	-
Andrew Just	5	5	-	-	-	-	-	-

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

Directors' Report *Continued*
For the year ended 30 June 2020

Remuneration Report (audited)

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

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

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

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

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

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

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

Non-executive directors remuneration

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

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at an Annual General Meeting and came into effect on 1 July 2018. Shareholders approved a maximum annual aggregate remuneration of $450,000.

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

Consolidated entity performance and link to remuneration

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

In considering non-executive director and executive remuneration, the directors take into consideration the Company's share performance and shareholder wealth creation. During the financial year the Company's share price traded between a low of 9.5 cents and a high of 52.0 cents. As at 30 June 2020 the Company's share price (ASX: PGC) was 19.0 cents per share.

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

Employee Incentive Plan

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

Directors' Report *Continued*
For the year ended 30 June 2020

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

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

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

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

Performance rights

Vesting conditions and important dates

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

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

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

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

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

Other conditions

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

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

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

Use of remuneration consultants

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

Voting and comments made at the Company's 26 November 2019 Annual General Meeting ('AGM')

At the 26 November 2019 AGM, 97.66% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

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

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

- Shane Tanner - Non-Executive Chairman
- Geoffrey Sam OAM - Non-Executive Director
- Brent Stewart - Non-Executive Director
- Bruce Bian - Non-Executive Director (resigned 20 August 2020)
- Mark Simari - Non-Executive Director (appointed 27 November 2019)
- Michael Newton - Former Non-Executive Director (resigned 30 June 2020)
- Andrew Just - Former Managing Director and Chief Executive Officer (resigned 27 November 2019)

And the following persons:

- Phil Nicholl - Chief Executive Officer (appointed 27 November 2019)
- Stephen Munday - Chief Financial Officer (appointed 13 December 2019)
- Paul Smith - Former Chief Financial Officer (resigned 13 December 2019)

Directors' Report *Continued*
For the year ended 30 June 2020

Amounts of remuneration

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

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

* Remuneration is from date of appointment as key management personnel to 30 June 2020.
** Remuneration is from 1 July 2019 to date of resignation as key management personnel.

2019	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	Performance Rights	Total
	$	$	$	$	$	$	$
Non-Executive Directors							
Shane Tanner	120,000	-	-	-	-	-	120,000
Michael Newton	23,466	-	20,006	4,130	-	-	47,602
Geoffrey Sam	43,473	-	-	4,130	-	-	47,603
Brent Stewart	60,000	-	-	-	-	-	60,000
Bruce Bian*	16,438	-	-	1,562	-	-	18,000
Executive Directors							
Andrew Just	500,000	-	-	25,000	-	-	525,000
Other Key Management Personnel							
Paul Smith*	200,071	-	-	16,955	-	-	217,026
Leonard Kocovic**	134,462	55,275	21,192	16,954	-	-	227,883
Total	**1,097,910**	**55,275**	**41,198**	**68,731**	**-**	**-**	**1,263,114**

* Remuneration is from date of appointment as key management personnel to 30 June 2019.
** Remuneration is from 1 July 2018 to date of resignation as key management personnel.

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

Directors' Report *Continued*
For the year ended 30 June 2020

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

	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
Non-Executive Directors						
Shane Tanner	100%	100%	-	-	-	-
Geoffrey Sam OAM	100%	100%	-	-	-	-
Brent Stewart	100%	100%	-	-	-	-
Bruce Bian	100%	100%	-	-	-	-
Mark Simari*	100%	-	-		-	-
Michael Newton**	100%	100%	-	-	-	-
Executive Directors						
Andrew Just	100%	100%	-	-	-	-
Other Key Management Personnel						
Phil Nicholl	100%	-	-	-	-	-
Stephen Munday	100%	-	-	-	-	-
Paul Smith	100%	100%	-	-	-	-
Leonard Kocovic	-	76%	-	24%	-	-

	Cash bonus paid/payable		Cash bonus forfeited	
	2020	2019	2020	2019
Other Key Management Personnel:				
Leonard Kocovic	-	100%	-	-

Directors' Report *Continued*
For the year ended 30 June 2020

Service agreements

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

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

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

Name:	Geoffrey Sam OAM
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination
Details:	Base salary including superannuation $60,000. No termination benefit.

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

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

Name:	Mark Simari
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination
Details:	Base salary including superannuation $60,000. No termination benefit.

Name:	Phil Nicholl
Title:	Chief Executive Officer
Term of agreement:	No fixed term, 3 month notice period required for termination
Details:	Base salary including superannuation $525,000. No termination benefit.

Name:	Stephen Munday
Title:	Chief Financial Officer
Term of agreement:	No fixed term, no notice period required for termination
Details:	Base salary including superannuation $336,000. No termination benefit.

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

Directors' Report *Continued*
For the year ended 30 June 2020

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2020.

Performance rights

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

Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
14 December 2018	31 August 2021	30 September 2021	$0.8055
26 April 2019	31 August 2022	30 September 2022	$0.4450

Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
Andrew Just	228,119	14 Dec 2018	31 Aug 2021	30 Sep 2021	$0.8055
Paul Smith	137,316	26 Apr 2019	31 Aug 2022	30 Sep 2022	$0.4450

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Number of rights during the year 2020	Number of rights granted during the year 2019	Number of rights during the year 2020	Number of rights during the year 2019
Andrew Just	-	228,119	-	-
Paul Smith	-	137,316	-	-

Details of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Grant date	Vesting date	Number of rights granted	Value of rights granted ($)	Value of rights vested ($)	Number of rights lapsed	Value of rights lapsed ($)
Andrew Just	14 Dec 2018	31 Aug 2021	-	-	-	228,119	183,750
Paul Smith	26 Apr 2019	31 Aug 2022	-	-	-	137,316	65,911

Directors' Report *Continued*
For the year ended 30 June 2020

Additional information

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

	2020	2019	2018	2017	2016
Share price at financial year end ($)	19.00	41.50	82.50	77.00	70.00
Total dividends declared (cents per share)	-	1.10	4.20	4.10	3.00
Basic earnings per share (cents per share)	(22.87)	(4.49)	5.40	6.20	5.60

Additional disclosures relating to key management personnel

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
Ordinary shares					
Shane Tanner	850,000	-	-	-	850,000
Geoffrey Sam OAM	1,466,417	-	270,000	-	1,736,417
Brent Stewart	2,983,466	-	-	-	2,983,466
Bruce Bian	-	-	-	-	-
Mark Simari*	-	-	-	391,561	391,561
Michael Newton	403,134	-	-	(403,134)	-
Andrew Just	-	-	-	-	-
Phil Nicholl	-	-	-	1,764,664	1,764,664
Stephen Munday	-	-	-	-	-
Paul Smith	-	-	-	-	-
	5,703,017	-	270,000	1,753,091	7,726,108

* Disposals/other represent existing holding of shares when appointed to the Board
** Disposals/other represent no longer a key management personnel not necessarily a disposal of holding.

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

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/other	Balance at the end of the year
Performance rights over rdinary shares					
Shane Tanner	-	-	-	-	-
Geoffrey Sam OAM	-	-	-	-	-
Brent Stewart	-	-	-	-	-
Bruce Bian	-	-	-	-	-
Mark Simari*	-	-	-	-	-
Michael Newton	-	-	-	-	-
Andrew Just	228,119	-	-	(228,119)	-
Phil Nicholl	-	-	-	-	-
Stephen Munday	-	-	-	-	-
Paul Smith	137,316	-	-	(137,316)	-
	365,435	-	-	(365,435)	-

This concludes the remuneration report, which has been audited.

Directors' Report *Continued*
For the year ended 30 June 2020

Shares under performance rights

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

Grant date	Expiry date	Exercise price	Number under rights
26 April 2019	30 September 2022	$0.4450	318,574

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

Shares issued on the exercise of performance rights

There were no ordinary shares of Paragon Care Limited issued on the exercise of performance rights during the year ended 30 June 2020 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 37 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 37 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

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

Rounding of amounts

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

Directors' Report *Continued*
For the year ended 30 June 2020

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

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

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

On behalf of the directors

Shane Tanner
Chiarman

31 August 2020
Melbourne

Auditor's Independence Declaration

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Paragon Care Limited and its controlled entities for the year ended 30 June 2020, 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

M PARAMESWARAN
Partner

Dated: 31 August 2020
Melbourne, Victoria

Financial Statements

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Revenue from continuing operations			
Sale of goods	5	231,689	236,009
Cost of sales		(144,874)	(140,981)
Gross profit		**86,815**	**95,028**
Other income	6	131	1,162
Interest revenue calculated using the effective interest method		189	575
Expenses			
Distribution		(3,500)	(4,459)
Marketing		(1,710)	(2,665)
Occupancy	7	(2,010)	(1,336)
Administration	7	(70,584)	(67,669)
Allowance for expected credit losses	12	(940)	(37)
Impairment of goodwill	21	(54,235)	-
Impairment of other assets	8	(14,016)	(2,335)
Provision for obsolescence of inventory - change in accounting estimates	13	(5,702)	-
Fair value loss on derivative liabilities	25	(4,577)	-
Finance costs	7	(7,064)	(5,949)
Profit/(loss) before income tax (expense)/benefit from continuing operations		**(77,203)**	**12,315**
Income tax (expense)/benefit	9	5,603	(3,453)
Profit/(loss) after income tax (expense)/benefit from continuing operations		(71,600)	8,862
Loss after income tax benefit from discontinued operations	10	(5,669)	(23,248)
Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Paragon Care Limited		(77,269)	(14,386)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		(998)	(436)
Foreign currency translation		(1,768)	1,632
Other comprehensive income for the year, net of tax		(2,766)	1,196
Total comprehensive income for the year attributable to the owners of Paragon Care Limited		**(80,035)**	**(13,190)**
Total comprehensive income for the year is attributable to:			
Continuing operations		(73,221)	9,970
Discontinued operations		(6,814)	(23,160)
		(80,835)	**(13,190)**

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	2020 cents	2019 cents
Earnings per share for profit from continuing operations attributable to the owners of Paragon Care Limited			
Basic earnings per share	45	(21.19)	2.77
Diluted earnings per share	45	(21.19)	2.77
Earnings per share for loss from discontinued operations attributable to the owners of Paragon Care Limited			
Basic earnings per share	45	(1.68)	(7.26)
Diluted earnings per share	45	(1.68)	(7.26)
Earnings per share for profit/(loss) attributable to the owners of Paragon Care Limited			
Basic earnings per share	45	(22.87)	(4.49)
Diluted earnings per share	45	(22.87)	(4.49)

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

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020	2019
		$'000	**$'000**
Assets			
Current assets			
Cash and cash equivalents	11	24,505	34,224
Trade and other receivables	12	31,574	44,133
Inventories	13	46,662	51,407
Investments	14	-	22
Derivative financial instruments	15	-	291
Income tax refund due	9	70	5,736
Other	16	1,694	2,117
		104,505	**137,930**
Non-current assets classified as held for sale	17	1,800	-
Total current assets		**106,305**	**137,930**
Non-Current Assets			
Receivables	18	-	574
Property, plant and equipment	19	7,184	13,056
Right-of-use assets	20	14,265	20,923
Intangibles	21	149,660	204,321
Deferred tax	9	14,757	7,392
Total non-current assets		**185,866**	**246,266**
Total assets		**292,171**	**384,196**
Liabilities			
Current liabilities			
Trade and other payables	22	26,921	47,947
Borrowings	23	16,767	10,136
Lease liabilities	24	3,722	3,031
Derivative financial instruments	25	5,711	-
Employee benefits		4,572	4,296
Vendor conditional payables	26	15,331	-
Other	27	11,853	7,462
Total current liabilities		**84,877**	**72,872**
Non-current liabilities			
Borrowings	28	82,159	89,243
Lease liabilities	29	12,380	19,221
Employee benefits		474	871
Vendor conditional payables	30	-	9,673
Total non-current liabilities		**95,013**	**119,008**
Total Liabilities		**179,890**	**191,880**
Net Assets		**112,281**	**192,316**
Equity			
Issued capital	31	202,718	202,718
Reserves	32	(1,671)	1,095
Retained earnings (Accumulated losses)		(88,766)	(11,497)
Total Equity		**112,281**	**192,316**

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Issued capital	Foreign currency translation reserve	Hedging reserve - cash flow hedges	Accumulated losses	Total Equity
	$'000	$'000	$'000	$'000	$'000
Consolidated					
Balance at 1 July 2018	156,930	(741)	640	12,641	169,470
Loss after income tax expense for the year	-	-	-	(14,386)	(14,386)
Other comprehensive income for the year, net of tax	-	1,632	(436)	-	1,196
Total comprehensive income for the year	-	1,632	(436)	(14,386)	(13,190)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 31)	45,788	-	-	-	45,788
Dividends paid (note 33)	-	-	-	(9,752)	(9,752)
Balance at 30 June 2019	202,718	891	204	(11,497)	192,316

	Issued capital	Foreign currency translation reserve	Hedging reserve - cash flow hedges	Accumulated losses	Total Equity
	$'000	$'000	$'000	$'000	$'000
Consolidated					
Balance at 1 July 2019	202,718	891	204	(11,497)	192,316
Loss after income tax expense for the year	-	-	-	(77,269)	(77,269)
Other comprehensive income for the year, net of tax	-	(1,768)	(998)	-	(2,766)
Total comprehensive income for the year	-	(1,768)	(998)	(77,269)	(80,835)
Balance at 30 June 2020	202,718	(877)	(794)	(88,766)	112,281

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		265,178	261,874
Payments to suppliers and employees (inclusive of GST)		(260,020)	(246,629)
Government assistance received (JobKeeper subsidy)		998	-
Interest received		189	381
Interest and other finance costs paid		(6,107)	(5,959)
Income taxes refunded		5,049	-
Income taxes paid		-	(8,509)
Net cash from operating activities	44	5,287	1,158
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	41	(4,224)	(28,196)
Payments for investments		-	(1)
Payments for property, plant and equipment		(2,315)	(5,828)
Payments for intangibles		(4,951)	(3,893)
Payments for security deposits		(33)	-
Proceeds from disposal of business		-	1,352
Proceeds from disposal of investments		22	-
Proceeds from disposal of property, plant and equipment		-	1,012
Proceeds from release of security deposits		98	80
Net cash used in investing activities		(11,403)	(35,474)
Cash flows from financing activities			
Proceeds from issue of shares	31	-	45,196
Share issue transaction costs		-	(2,907)
Proceeds from borrowings (net)		6,076	-
Repayment of borrowings (net)		(5,925)	(4,488)
Repayment of lease liabilities		(3,754)	(950)
Dividends paid	33	-	(8,703)
Net cash from/(used in) financing activities		(3,603)	28,148
Net decrease in cash and cash equivalents		(9,719)	(6,168)
Cash and cash equivalents at the beginning of the financial year		34,224	40,392
Cash and cash equivalents at the end of the financial year	11	24,505	34,224

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

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2020

NOTE 1. General information

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

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

Level 4
96-100 Albert Road
South Melbourne VIC 3205

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2020. The directors have the power to amend and reissue the financial statements.

NOTE 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

The Group early adopted new Accounting Standard AASB 16 'Leases', which replaced AASB 117 'Leases' in the previous financial year. In the current financial year, the Group early adopted the following:

AASB 2020-4 Amendment to Australian Accounting Standards - COVID-19-Related Rent Concessions

The Group has early adopted the amendment to AASB 16 from 1 July 2019. The amendment provides a practical expedient for lessees to account for COVID-19-related rent concessions that: result in lease payments that are substantially the same as, or less than, the consideration for the lease immediately prior to the change; where any reduction in the lease payments affects only payments originally due on or before 30 June 2021; and where there is no substantive change to other terms and conditions of the lease. The practical expedient allows an entity not to assess rent concessions meeting the criteria as a lease modification. As a result, to the extent that lease concessions represent a forgiveness or waiver of lease payments, such concessions are treated as variable lease payments recognised in profit or loss with a corresponding adjustment to the lease liability. To the extent that the lease concession in substance represents a delay in lease repayments such that lease consideration is not changed, the lease liability is not extinguished. Interest continues to accrue for that period.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 40.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Paragon Care Limited as at 30 June 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

Operating segments

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

Foreign currency translation

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

Foreign currency transactions

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 2. Significant accounting policies (continued)

Foreign operations

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

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

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

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

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

Sale of goods

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

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

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

Government grants

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

Income tax

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

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

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 2. Significant accounting policies (continued)

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

Inventories

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

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

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

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

Interest rate swaps

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

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

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

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

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

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

Investments and other financial assets

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

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 2. Significant accounting policies (continued)

substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Investments

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

Impairment of financial assets

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

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

Property, plant and equipment

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

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

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

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

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

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

Right-of-use assets

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

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

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

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

Intangible assets

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

Goodwill

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

Website

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

Customer contracts

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

Software development

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

Research and development ('R&D') projects

Research costs are expensed in the period they are incurred. Development expenditure is capitalised only when incurred and when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. R&D projects are amortised when the items developed are ready for market use. They are amortised over the expected useful life of the items developed.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 2. Significant accounting policies (continued)

Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

Lease liabilities

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

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

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

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

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

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

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

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 2. Significant accounting policies (continued)

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

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

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

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

Fair value measurement

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

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

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 2. Significant accounting policies (continued)

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

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

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

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a business

The amendments are applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted.

The amendments:

a. clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
b. remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
c. add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
d. narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
e. add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

The amendments are applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The amendments refine the definition of material in AASB 101 to clarify the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material. The adoption of these amendments from 1 July 2020 will not have a material impact on the Group.

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

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

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

NOTE 3. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

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

Allowance for expected credit losses

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

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

Provision for impairment of inventories

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

Fair value measurement hierarchy

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

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

Estimation of useful lives of assets

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

Goodwill and other indefinite life intangible assets

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

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

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

Income tax

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

Recovery of deferred tax assets

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

Lease term

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

Business combinations

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

NOTE 4. Operating segments

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 5. Revenue

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

	2020	2019
	$'000	$'000
Major product lines		
Diagnostic Product line	23,228	23,425
Capital and Consumables Product Line	105,755	119,363
Devices Product Line	74,962	76,498
Services and Technology	27,744	16,723
	231,689	**236,009**
Geographical regions		
Australia	190,024	191,129
New Zealand	41,527	43,481
Other	138	1,399
	231,689	**236,009**
Timing of revenue recognition		
Goods transferred at a point in time	203,945	219,286
Services transferred over time	27,744	16,723
	231,689	**236,009**

NOTE 6. Other Income

	2020	2019
	$'000	$'000
Write back of earn-out	-	1,162
Rent concessions arising from COVID-19	131	-
Other income	**131**	**1,162**

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 7. Expenses

	2020 $'000	2019 $'000
Profit before income tax from continuing operations includes the following specific expenses:		
Administration costs		
Depreciation (included in Administration expenses)		
Buildings	34	-
Leasehold improvements	224	103
Plant and equipment	3,029	3,452
Motor vehicles	87	78
Land and buildings right-of-use assets	3,998	3,784
Total depreciation	**7,372**	**7,417**
Amortisation (included in Administration expenses)		
Website	73	54
Contracts	393	751
Software development costs	199	1,661
R&D Projects (under construction)	16	125
Total amortisation	**681**	**2,591**
Total depreciation and amortisation	**8,053**	**10,008**
Employee benefits expense (included in administration costs) Finance costs		
Payroll costs	50,277	46,209
Defined contributions superannuation expense	3,082	3,052
Provision for restructure - redundancies	646	-
JobKeeper subsidy (refer below)	(2,981)	-
Total employee benefits expense	**51,024**	**49,261**
Net foreign exchange loss	**285**	**-**
Other administration costs		
Management consulting fees	2,396	428
Telephone and internet costs	1,015	1,110
Travel costs	2,248	2,525
Corporate costs	1,128	912
Other	4,435	3,425
Total other administration costs	**11,222**	**8,400**
Administration costs expensed	**70,584**	**67,669**
Occupancy costs		
Leasehold property outgoing costs	962	1,336
Provision for restructure costs relation to property rationalisation (refer below)	1,048	-
Total occupancy costs	**2,010**	**1,336**
Finance costs		
Interest and finance charges paid/payable on borrowings	4,783	4,772
Loan facility fees and ancillary costs expensed	826	-
Interest and finance charges paid/payable on lease liabilities	1,455	1,177
Total finance costs	**7,064**	**5,949**

JobKeeper subsidy

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

Provision for restructure costs relation to property rationalisation

During the year, as part of the Group's restructure, the Group embarked on warehouse closures to reduce the number of warehouses and move into other warehouse space to fit the Group's strategy going forward (refer note 8). A provision has been made for known costs of closures underway but not yet complete, these costs include make good, relocation, property closure and other associated costs.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 8. Impairment of other assets

	Note	2020	2019
		$'000	$'000
Sundry debtors		1,230	-
Buildings	19	311	-
Leasehold improvements	19	1,174	-
Plant and equipment	19	1,528	-
Land and buildings - right-of-use	20	1,300	-
Contracts	21	1,469	-
Software development costs	21	6,129	2,335
R&D projects (under construction)	21	875	-
		14,016	**2,335**

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 9. Income Tax

	2020	2019
	$'000	**$'000**
Income tax expense/(benefit)		
Current tax	607	1,788
Deferred tax - origination and reversal of temporary differences	(7,922)	(2,378)
Adjustment recognised for prior periods	567	(100)
Aggregate income tax expense/(benefit)	**(6,748)**	**(690)**
Income tax benefit is attributable to:		
Profit/(loss) from continuing operations	(5,603)	3,453
Loss from discontinued operations	(1,145)	(4,143)
Aggregate income tax expense/(benefit)	**(6,748)**	**(690)**
Deferred tax included in income tax expense/(benefit) comprises: Decrease/(increase) in deferred tax assets	(7,922)	(2,378)
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(loss) before income tax (expense)/benefit from continuing operations	(77,203)	12,315
Loss before income tax benefit from discontinued operations	(6,814)	(27,391)
	(84,017)	**(15,076)**
Tax at the statutory tax rate of 30%	(25,205)	(4,523)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	17,170	-
Earn-out write-back	-	(349)
Capital loss on divestment of business	-	3,951
Non-deductible costs	720	271
Sundry items	-	60
	(7,315)	**(590)**
Adjustment recognised for prior periods	567	(100)
Income tax expense/(benefit)	**(6,748)**	**(690)**
Amounts credited directly to equity		
Deferred tax assets	(10)	(1,364)
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to: Unrecognised tax capital losses	4,764	3,951
Total deferred tax assets not recognised	**4,764**	**3,951**

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 9. Income Tax (continued)

	2020 $'000	2019 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	5,148	2,108
Property, plant and equipment	112	(9)
Employee benefits	1,697	1,713
Accrued expenses	628	254
Right of use asset/lease liability	513	250
Derivative liabilities/assets	1,714	-
Inventories	3,466	528
Prepayments	-	(6)
Foreign exchange gains/(losses)	(82)	313
Other assets	295	226
	13,491	**5,377**
Amounts recognised in equity:		
Transaction costs on share issue	1,266	2,015
Deferred tax asset	**14,757**	**7,392**
Movements:		
Opening balance	7,392	3,703
Credited to profit or loss	7,922	2,378
Credited to equity	10	1,364
Additions through business combinations (note 41)	-	131
Unders/overs	(567)	(184)
Closing balance	**14,757**	**7,392**
Income tax refund due		
Income tax refund due	70	5,736

NOTE 10 Discontinued operations

2020
In reviewing the operations of the MIDAS software business during the year, the board concluded that with fewer than 10 customers and requiring significantly more development than initially planned at acquisition, the MIDAS software is unlikely to result in sufficient returns to justify continued investment. The closure of MIDAS business has been progressively undertaken since late in the financial year. The total cost of closure will be $6.5 million (being goodwill write-off of $3 million, software assets write-off of $3.2 million and costs to windup operations of $0.3 million) and has been provided for in this financial year, this and the FY20 operating loss of $0.3 million less an income tax benefit of $1.1 million has been classified as a loss after tax from discontinued operations this year of $5.7 million.

The Midas software business operating loss of $0.07 million in 2019 financial year has been reclassified into discontinued operations comparative number for 2019 financial year.

2019
On 29 November 2018, the Company announced that as part of the Group-wide transformation program, it had commenced a strategic review of the business operations, particularly the capital equipment operations.

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 10. Discontinued operations (continued)

Financial performance information

	2020 $'000	2019 $'000
Sale of goods	84	20,689
Cost of sales	(6)	(13,057)
Gross profit	**78**	**7,632**
Other income	-	994
Interest revenue calculated using the effective interest method	-	70
	-	**1,064**
Distribution	-	(995)
Marketing	-	(48)
Occupancy	(21)	(288)
Administration	(694)	(13,004)
Impairment of assets	(6,177)	(76)
Finance costs	-	(274)
Total expenses	**(6,892)**	**(14,685)**
Loss before income tax benefit	(6,814)	(5,989)
Income tax benefit	1,145	4,143
Loss after income tax benefit	(5,669)	(1,846)
Loss on disposal before income tax	-	(21,402)
Income tax expense	-	-
Loss on disposal after income tax expense	-	(21,402)
Loss after income tax benefit from discontinued operations	(5,669)	(23,248)

Carrying amounts of assets and liabilities disposed

	2020 $'000	2019 $'000
Trade and other receivables	-	99
Inventories	-	7,595
Property, plant and equipment	-	1,545
Other non-current assets	-	1,000
Total assets	-	10,239
Provisions	-	576
Total liabilities	-	576
Net assets	-	9,663

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 10. Discontinued operations (continued)

Details of the disposal

	2020 $'000	2019 $'000
Total sale consideration	-	3,725
Carrying amount of net assets disposed	-	(9,663)
Loss on disposal before income tax	-	(5,938)
Impairment of goodwill	-	(15,464)
Loss on disposal after income tax	-	(21,402)

NOTE 11. Current assets - cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and on hand	24,505	34,224

NOTE 12. Current assets - trade and other receivables

	2020 $'000	2019 $'000
Trade receivables	30,308	39,447
Less: Allowance for expected credit losses	(940)	-
	29,368	**39,447**
Other receivables	2,206	3,921
Goods and services tax receivable	-	765
	31,574	**44,133**

Allowance for expected credit losses

The Group has recognised a loss of $940,000 (2019: $37,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2020. The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, pursuant to the COVID19 pandemic. As a result, the calculation of expected credit losses has been revised as at 30 June 2020.

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

	Expected credit loss rate		Expected credit loss rate		Allowance for expected credit loss rate	
	2020 %	2019 %	2020	2019 $	2020 %	2019 %
Not overdue	-	-	25,122	19,126	-	-
0 to 3 months overdue	8%	-	4,071	18,509	345	-
3 to 6 months overdue	29%	-	690	1,812	198	-
Over 6 months overdue	93%	-	425	-	397	-
			30,308	**39,447**	**940**	

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 12. Current assets - trade and other receivables (continued)

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

	2020 $'000	2019 $'000
Opening balance	-	-
Additional provisions recognised	940	-
Closing balance	**940**	**-**

NOTE 13. Current assets - inventories

	2020 $'000	2019 $'000
Raw materials - at a cost	950	976
Finished goods - at cost	55,563	55,180
Stock in transit - at cost	1,704	-
Less: Provision for impairment	(11,555)	(4,749)
	46,662	**51,407**

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

	2020 $'000	2019 $'000
Balance at the start of the financial year	(4,749)	(465)
Increase in provision during the year	(1,104)	(4,284)
Increase in provision due to change in accounting estimates	(5,702)	-
Balance at the end of the financial year	**(11,555)**	**(4,749)**

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

The Group previously provided for obsolescence in relation to inventory with no sales history ranging from 2 years up until 4 years at percentages ranging from 20% to 40%.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 14. Current assets -investments

	2020 $'000	2019 $'000
Listed shares	-	22
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	22	21
Additions	-	1
Disposals	(22)	-
Closing fair value	-	22

NOTE 15. Current assets -derivative financial instruments

	2020 $'000	2019 $'000
Forward foreign exchange contracts - cash flow hedges	-	291
	-	**291**

Refer to note 35 for further information on fair value measurement.

NOTE 16. Current assets -other

	2020 $'000	2019 $'000
Prepayments	1,694	2,150
Security deposits	-	(33)
	1,694	**2,117**

NOTE 17. Current assets - non-current assets classified as held for sale

	2020 $'000	2019 $'000
Land and buildings	1,800	-
	1,800	**-**

The land and buildings situated at 19-21 Peninsula Boulevard, Seaford VIC was sold on the 3 August 2020. As at the reporting date the property was actively for sale, the property was classified as held-for-sale.

NOTE 18. Non-current assets - receivables

	2020 $'000	2019 $'000
Other receivables	-	574
	-	**574**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 19. Non-current assets - property, plant and equipment

	2020	2019
	$'000	$'000
Land and buildings - at cost	-	2,145
Leasehold improvements - at cost	4,365	3,994
Less: Accumulated depreciation	(883)	(659)
Less: Impairment	(1,174)	-
	2,308	**3,335**
Plant and equipment - at cost	27,683	25,739
Less: Accumulated depreciation	(21,555)	(18,526)
Less: Impairment	(1,528)	-
	4,600	**7,213**
Motor vehicles - at cost	1,241	1,241
Less: Accumulated depreciation	(965)	(878)
	276	**363**
	7,184	**13,056**

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

	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	**-**	**3,358**	**8,129**	**685**	**12,172**
Additions	2,145	80	3,655	-	5,880
Additions through business combinations (note 41)	-	-	736	-	736
Disposals	-	-	(1,583)	(244)	(1,827)
Exchange differences	-	-	(43)	-	(43)
Depreciation expense	-	(103)	(3,681)	(78)	(3,862)
Balance at 30 June 2019	**2,145**	**3,335**	**7,213**	**363**	**13,056**
Additions	-	371	1,944	-	2,315
Classified as held for sale (note 17)	(1,800)	-	-	-	(1,800)
Impairment of assets (note 8)	(311)	(1,174)	(1,528)	-	(3,013)
Depreciation expense	(34)	(224)	(3,029)	(87)	(3,374)
Balance at 30 June 2020	**-**	**2,308**	**4,600**	**276**	**7,184**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 20. Non-current assets - right-of-use assets

	2020 $'000	2019 $'000
Land and buildings - right-of-use	21,953	24,707
Less: Accumulated depreciation	(7,688)	(3,784)
	14,265	**20,923**

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

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

	Land and buildings right-of-use $'000
Balance at 1 July 2018	**-**
Recognition on early adoption of AASB 16	24,707
Depreciation expense	(3,784)
Balance at 30 June 2019	**20,923**
Impairment of assets (note 8)	(1,300)
Additions during the year	1,640
Reductions due to lease modifications	(3,000)
Depreciation expense	(3,998)
Balance at 30 June 2020	**14,265**

NOTE 21. Non-current assets - intangibles

	2020 $'000	2019 $'000
Goodwill - at cost	221,700	211,648
Less: Impairment	(72,699)	(15,464)
	149,001	**196,184**
Website - at cost	329	584
Less: Accumulated amortisation	(124)	(306)
	205	**278**
Contracts - at cost	2,613	2,493
Less: Accumulated amortisation	(1,144)	(751)
Less: Impairment	(1,469)	-
	-	**1,742**
Software development costs - at cost	11,876	10,970
Less: Accumulated amortisation	(2,958)	(2,759)
Less: Impairment	(8,464)	(2,335)
	454	**5,876**
R&D Projects (under construction) - at cost	1,061	411
Less: Accumulated amortisation	(186)	(170)
Less: Impairment	(875)	-
	-	**241**
	149,660	**204,321**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 21. Non-current assets - intangibles (continued)

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

	Goodwill	Website	Contracts	Software development costs	R&D Projects (under construction)	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2018	**179,231**	**141**	**2,493**	**6,345**	**1,921**	**190,131**
Additions	-	191	-	3,527	175	3,893
Additions through business combinations (note 38)	29,281	-	-	-	-	29,281
Finalisation of acquisition accounting	4,501	-	-	-	-	4,501
Disposals	-	-	-	-	(1,730)	(1,730)
Exchange differences	(1,365)	-	-	-	-	(1,365)
Impairment of assets	(15,464)	-	-	(2,335)	-	(17,799)
Amortisation expense	-	(54)	(751)	(1,661)	(125)	(2,591)
Balance at 30 June 2019	**196,184**	**278**	**1,742**	**5,876**	**241**	**204,321**
Additions	-	-	120	4,180	650	4,950
Acquisition accounting	9,433	-	-	-	-	9,433
Disposals	-	-	-	(98)	-	(98)
Exchange differences	619	-	-	-	-	619
Impairment of assets - discontinued operations (note 10)	(3,000)	-	-	(3,177)	-	(6,177)
Impairment of assets (note 8)	(54,235)	-	(1,469)	(6,128)	(875)	(62,707)
Amortisation expense	-	(73)	(393)	(199)	(16)	(681)
Balance at 30 June 2020	**149,001**	**205**	**-**	**454**	**-**	**149,660**

Impairment testing

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

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

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

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 2 year projection period approved by management and extrapolated for a further 3 years using a steady rate, together with a terminal value. Based on the discounted cash projections, the Company has anticipated positive operating cash flows generating a net present value $54 million less than the current book value as at 30 June 2020.

The Group's goodwill on acquisitions has been impacted by both the slower cash generation expected as the economy slowly recovers from the pandemic and the increased discount rates which need to be applied to future cash flows because of the uncertainty around the length and depth of the impacts of the pandemic. One of the reasons for the impairment was the reduction in future expected cash flows due to the loss of business in Western Biomedical which is the subject of ongoing litigation by Paragon Care against the Western Biomedical vendor.

Management believes the projected 4% revenue growth rate beyond the first 2 years is prudent and justified, based on the general slowing in the market. The discount rate of 14.6% pre-tax reflects management's estimate of the time value of money and the Group's weighted average cost of capital, the risk-free rate and the volatility of the share price relative to market movements.

Key assumptions used for the discounted cash flow projections:

	Rate
	%
Revenue growth rate beyond first 2 years	4.00%
Pre-tax discount rate	14.60%
Terminal growth rate	1.25%

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 21. Non-current assets - intangibles (continued)

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

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

- Year 2 projections assume that the Group will return to pre-COVID-19 budgeted revenue levels of $256 million. Should COVID-19 further negatively impact on the Group's operations resulting in the Group not returning to pre-COVID-19 revenue levels until year 3, there may be a further increase in the impairment charge by $20 million.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount (after allowing for the $54 million impairment booked this year) to exceed its recoverable amount. If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in a further impairment charge for goodwill.

NOTE 22. Current liabilities - trade and other payables

	2020	2019
	$'000	$'000
Trade payables	20,900	40,450
Goods and services tax payable	1,351	2,890
Other payables	4,670	4,607
	26,921	**47,947**

Refer to note 34 for further information on financial instruments.

NOTE 23. Current liabilities - borrowings

	2020	2019
	$'000	$'000
Bank loans	4,500	4,000
Trade finance facility	11,447	5,371
Lease liability	820	765
	16,767	**10,136**

Refer to note 28 for further information on assets pledged as security and financing arrangements.
Refer to note 34 for further information on financial instruments.

NOTE 24. Current liabilities - lease liabilities

	2020	2019
	$'000	$'000
Lease liability	3,722	3,031
	3,722	**3,031**

Refer to note 34 for further information on financial instruments.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 25. Current liabilities - derivative financial instruments

	2020 $'000	2019 $'000
Forward foreign exchange contracts - cash flow hedges	1,134	-
Interest rate swap contracts - derivative liability	4,577	
	5,711	**-**

Refer to note 34 for further information on financial instruments.
Refer to note 35 for further information on fair value measurement.

NOTE 26. Current liabilities - vendor conditional payables

	2020 $'000	2019 $'000
Vendor conditional payables	15,331	-
	15,331	-

Refer to note 41 for further information on vendor conditional payables.

NOTE 27. Current liabilities - other

	2020 $'000	2019 $'000
Accrued expenses	10,146	5,594
Deferred revenue	1,707	1,868
	11,853	**7,462**

NOTE 28. Non-current liabilities - borrowings – Financing Arrangements

	2020 $'000	2019 $'000
Bank loans	81,897	88,322
Hire purchase	262	921
	82,159	**89,243**

Refer to note 34 for further information on financial instruments.

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

	2020 $'000	2019 $'000
Bank loans	86,397	92,322
Trade finance facility	11,447	5,371
Hire purchase	1,082	1,686
	98,926	**99,379**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 28. Non-current liabilities - borrowings – Financing Arrangements (continued)

Assets pledged as security

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

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

On 29 June 2020, the Group received approval from its bankers for an amendment to its banking facilities. This has resulted in a relaxation of the Group's obligation to comply with the existing facility covenants through to September 2020. The amendment also resulted in the deferment of the Group's quarterly facility repayments until December 2020, totalling $1.5 million. Post balance sheet date, there have been amendments to the loan arrangements - refer to Note 47 for further details.

Financing arrangements

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

	2020	2019
	$'000	**$'000**
Total facilities		
Bank loans	98,075	109,000
Trade finance facility	15,000	10,000
Bank guarantees and others	2,599	6,172
	115,674	**125,172**
Used at the reporting date		
Bank loans	86,397	92,322
Trade finance facility	11,447	5,371
Bank guarantees and others	1,344	-
	99,188	**97,693**
Unused at the reporting date		
Bank loans	11,678	16,678
Trade finance facility	3,553	4,629
Bank guarantees and others	1,255	6,172
	16,486	**27,479**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 29. Non-current liabilities - lease liabilities

	2020	2019
	$'000	$'000
Lease liability	12,380	19,221
	12,380	**19,221**

Refer to note 34 for further information on financial instruments.

The maturity analysis for lease liabilities is as follows:

	2020	2019
	$'000	$'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	3,894	4,047
One to five years	9,217	15,452
More than five years	5,265	7,008
Total undiscounted lease liabilities at 30 June	**18,376**	**26,507**
Lease liabilities included in the statement of financial position		
Lease liabilities included in the statement of financial position at 30 June	16,102	22,252
Lease liabilities included in the statement of financial position at 30 June		
Lease liabilities - current	3,722	3,031
Lease liabilities - non-current	12,380	19,221
	16,102	**22,252**

NOTE 30. Non-current liabilities - vendor conditional payables

	2020	2019
	$'000	$'000
Vendor conditional payables	-	9,673
	-	**9,673**

Refer to note 41 for further information on vendor conditional payables.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 31. Equity - issued capital

	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares - fully paid	337,885,292	337,885,292	202,718	202,718

Movements in ordinary share capital

	Date	Shares	Issue Price	$'000
Balance	**1 July 2018**	**283,647,930**	**-**	**156,930**
Issue of shares as part consideration for the acquisition of REM Systems business	2 August 2018	2,056,256	$0.7650	1,578
Issue of shares to Pioneer Australia, Pioneer Hong Kong, Pioneer Holdings, PioneerBV1, Tian Tian, UBS Trustees and the Lis	14 September 2018	16,483,517	$0.9100	15,000
Issue of shares pursuant to the Company's dividend re-investment plan	12 October 2018	1,004,167	$0.7167	720
Issue of shares to Pioneer Australia, Pioneer Hong Kong, Pioneer Holdings, PioneerBV1, Tian Tian, UBS Trustees and the Lis	20 November 2018	33,934,869	$0.8900	30,203
Issue of shares pursuant to the Company's dividend re-investment plan	26 April 2019	758,553	$0.4331	329
Share issue transaction costs	-	-	-	(2,042)
Balance	**30 June 2019**	**337,885,292**	**-**	**202,718**
Balance	**30 June 2020**	**337,885,292**	**-**	**202,718**

Ordinary shares

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 31. Equity - issued capital (continued)

Capital risk management

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

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

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

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

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

The capital risk management policy remains unchanged from the 2019 Annual Report.

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

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

The gearing ratio at the reporting date was as follows:

	Note	2020	2019
		$'000	$'000
Current liabilities - borrowings	23	16,767	10,136
Non-current liabilities - borrowings	28	82,159	89,243
Total borrowings		98,926	99,379
Current assets - cash and cash equivalents	11	(24,505)	(34,224)
Net debt		74,421	65,155
Total equity		112,281	192,316
Total capital		186,702	257,471
Gearing ratio		40%	25%

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 32. Equity - reserves

	2020 $'000	2019 $'000
Foreign currency translation reserve	(877)	891
Hedging reserve - cash flow hedges	(794)	204
	(1,671)	**1,095**

Foreign currency translation reserve

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

Hedging reserve - cash flow hedges

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

NOTE 33. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2018 of 2.0 cents per ordinary share	-	6,044
Interim dividend for the year ended 30 June 2019 of 1.1 cents per ordinary share	-	3,708
	-	**9,752**

Franking credits

	2020 $'000	2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	16,521	22,585
	16,521	**22,585**

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

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

NOTE 34. Financial instruments

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 34. Financial instruments (continued)

Market risk

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

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

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

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

	2020	2019
	$'000	**$'000**
Forward exchange contracts		
Buy foreign currency (cash flow hedges):		
AUD to USD	16,786	19,268
AUD to Euro	11,840	14,010
NZD to USD	10,471	4,500
NZD to Euro	455	10,494
	39,552	**48,272**

Interest rate risk
The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. In order to mitigate the risk of variable interest rates, the Group has entered into an interest rate swap arrangement with the bank for loans outstanding of $75,000,000 as at 30 June 2020.

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

	2020	2019
	$'000	**$'000**
Financial assets		
Cash and cash equivalents (interest bearing)	24,505	34,224
Financial liabilities		
Interest bearing liabilities - variable rate (current)	(15,947)	(9,371)
Interest bearing liabilities - fixed rate (current)	(820)	(765)
Interest bearing liabilities - variable rate (non-current)	(6,897)	(9,322)
Interest bearing liabilities - fixed rate (non-current)	(75,262)	(79,921)
Derivative liability	(4,577)	-
	(103,503)	**(99,379)**

For the Group bank loans outstanding, totalling $98,926,039 (2019: $99,378,860), are principal and interest payment loans. Of this, $75,000,000 (2019: $78,000,000) is managed under an interest rate swap arrangement, whereby the Group exchanges the banks floating rate (BBSYbid rate+spread) for a fixed interest rate of 2.22%. The Group has bank loans outstanding subject to variable interest rates of $22,844,333 (2019: $18,693,000). Monthly cash outlays of approximately $396,890 (2019: $277,182) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (2019: 100) basis points would have an adverse/favourable effect on profit before tax of $228,443 (2019: $186,930) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of $4,500,000 (2019: $4,000,000) are due during the year ending 30 June 2021 (2019: 30 June 2020).

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 34. Financial instruments (continued)

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

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

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

Financing arrangements
Unused borrowing facilities at the reporting date:

	2020 $'000	2019 $'000
Bank loans	11,678	16,678
Trade finance facility	3,553	4,629
Bank guarantees and others	1,255	6,172
	16,486	**27,479**

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

Consolidated 2020	Weighted average interest rate %	Less than 6 months $'000	Between 6 to 12 months $'000	Between 1 and 2 years $'000	Between 2 and 6 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing	-	26,921	15,331	-	-	42,252
Interest-bearing - variable	2.79%	12,947	3,000	6,897	-	22,844
Interest-bearing - fixed rate	2.22%	410	410	262	75,000	76,082
Total non-derivatives	**-**	**40,278**	**18,741**	**7,159**	**75,000**	**141,178**
Derivatives						
Forward foreign exchange contracts	-	870	236	28	-	1,134
Interest rate swap contracts	-	-	4,577	-	-	4,577
Total derivatives	**-**	**870**	**4,813**	**28**	**-**	**5,711**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 34. Financial instruments (continued)

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

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

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

NOTE 35. Fair value measurement

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

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

Consolidated 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Listed shares	22	-	-	22
Forward foreign exchange contracts - cash flow hedges	-	291	-	291
Total assets	**22**	**291**	**-**	**313**
Liabilities				
Vendor conditional payable	-	-	(9,673)	(9,673)
Total liabilities	**-**	**-**	**(9,673)**	**(9,673)**

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

There were no transfers between levels during the financial year.

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 35. Fair value measurement (continued)

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

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

Valuation techniques for fair value measurements categorised within level 2 and level 3
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

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

	Vendor conditional payable $'000
Balance at 1 July 2018	**(9,295)**
Gains recognised in profit or loss	1,163
Additions	(2,817)
Disposals	1,276
Balance at 30 June 2019	**(9,673)**
Additions during the year	(9,183)
Payments during the year	3,525
Balance at 30 June 2020	**(15,331)**

NOTE 36. Key management personnel disclosures

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

	2020 $	2019 $
Short-term employee benefits	1,116.350	1,194,383
Termination benefits	528,438	-
Post-employment benefits	60,770	68,731
	1,705,558	**1,263,114**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 37. Remuneration of auditors

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

	2020 $	2019 $
Audit services - RSM Australia Partners		
Audit or review of the financial statements	216,000	322,450
Other services - RSM Australia Partners		
Tax compliance services	67,675	90,170
Other services	33,400	-
	101,075	**90,170**
	317,075	**412,620**
Audit services - network firms		
Audit or review of the financial statements	48,615	64,520
Other services - network firms		
Tax compliance services	12,165	-
	60,780	**64,520**

NOTE 38. Contingent liabilities and contingent assets

The Group has given bank guarantees as at 30 June 2020 of $5,004,123 (2019: $5,019,613).

Legal proceedings
The company has commenced legal proceedings via its fully owned subsidiary Western Biomedical Pty Ltd, in the Supreme Court of Western Australia against two former employees and the vendor of Western Biomedical as a consequence of the loss of key clients/contracts.

Apart from the above, there have been no material changes to contingent liabilities or contingent assets since the end of the previous reporting period.

NOTE 39. Related party transactions

Parent entity
Paragon Care Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 42.

Key management personnel
Disclosures relating to key management personnel are set out in note 36 and the remuneration report included in the directors' report.

Transactions with related parties
Shane Tanner, director, is a shareholder in and director of Adphence Australia Pty Ltd which received $75,000 (2019: $nil) in consulting fees during the financial year.

Mark Simari, director, is a shareholder and director of Charkaroo Pty Ltd which is a corporate authorised representative under Sequoia Wealth Management Pty Limited's AFSL. Through that relationship Mark has an interest in a corporate advisory mandate in place between the company and Charkaroo Pty Ltd under Sequoia's licence. Charkaroo Pty Ltd is entitled to 42.5% of fees charged by Sequoia to Paragon Care, total fees charged by Sequoia during the financial year were $90,000 (2019: $nil) of which Charkroo was entitled to $38,250 (2019: $nil).

Bruce Bian, director, was a director of OPUZ Pty Ltd when it received $215,000 (2019: $nil) during the financial year as research and development funding to develop a wearable blood glucose monitoring technology authorised by the previous managing director of the company. The company has no ongoing relationship with that technology or that company.

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

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

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 40. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2020 $'000	2019 $'000
Profit/(loss) after income tax	(3,536)	3,695
Total comprehensive income	**(3,536)**	**3,695**

Statement of financial position

	2020 $'000	2019 $'000
Total current assets	3,531	15,670
Total assets	157,810	162,879
Total current liabilities	715	864
Total liabilities	716	885
Equity		
Issued capital	202,530	203,402
Hedging reserve - cash flow hedges	(546)	(54)
Accumulated losses	(44,890)	(41,354)
Total equity	**157,094**	**161,994**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity and its controlled entities are party to a deed of cross guarantee under which each company guarantees the debts of the others.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 41. Business combinations

2020

There were no business combinations during the year ended 30 June 2020.

The business combinations that occurred in the previous financial year have now been finalised and detailed below are the final values. The finalisation of business combination accounting in accordance with AASB 3 'Business Combinations' has resulted in an increase of $9,433,000 to goodwill mainly due to increase in vendor earnout.

2019

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

Total Communications Pty Ltd
On 21 November 2018 the Company acquired 100% of the shares in Total Communication Pty Ltd. Total Communication is a unique acquisition providing an integrated vendor management and support solution to the aged care sector. These products cover Telephony, Nurse Calls, Access Control, CCTV, Cordless and Healthcare Wi-Fi requirements. As per the sale agreement, the vendors are entitled to an earnout of 3 times the EBITDA growth on forecasted FY20. Whilst this payment is uncapped, at 30 June 2019 it was considered unlikely to go beyond the anticipated range of $1.80 million and $2.85 million.

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

Summary of business combinations for which the business combination accounting was finalised during the year are as follows:

	Lovell Surgical Fair value $'000	Total Communications Fair Value $'000	Total fair value $'000
Net working capital	8	1,715	1,723
Plant and equipment	367	369	736
Deferred tax asset	50	70	120
Employee benefits	(168)	(235)	(403)
Net assets acquired	257	1,919	2,176
Goodwill	743	37,971	38,714
Acquisition-date fair value of the total consideration transferred	1,000	39,890	40,890
Representing:			
Cash paid or payable to vendor	1,000	27,890	28,890
Vendor earnout	-	12,000	12,000
	1,000	39,890	40,890
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	1,000	39,890	40,890
Less: payments to be made in future periods	-	(12,000)	(12,000)
Net cash used	**1,000**	**27,890**	**28,890**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 41. Business combinations (continued)

Summary of vendor earnout is as follows:

	2020	2019
	$'000	$'000
Vendor payables		
Vendor payable from acquisitions during the year	-	2,817
Vendor payable from prior period acquisitions	15,331	6,856
Total vendor payables	15,331	9,673
Represented by:		
Current - Vendor payables	15,331	-
Non-current - Vendor payables	-	9,673
	15,331	**9,673**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 42. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership 2020 (%)	Interest 2019 (%)
Paragon Care Group New Zealand Management Services Ltd	New Zealand	100.00%	100.00%
Paragon Care Group New Zealand Ltd	New Zealand	100.00%	100.00%
Paragon Care Group Management Services Pty Ltd	Australia	100.00%	100.00%
Paragon Care Group Australia Pty Ltd	Australia	100.00%	100.00%
Paragon Care Group Holding Company Pty Ltd	Australia	100.00%	100.00%
Medtek Pty Ltd*	Australia	100.00%	100.00%
Paragon Medical Ltd*	New Zealand	100.00%	100.00%
Designed for Vision Ltd*	New Zealand	100.00%	100.00%
REM Systems Ltd*	New Zealand	100.00%	100.00%
REM Systems Pty Ltd*	Australia	100.00%	100.00%
Meditron Pty Ltd*	Australia	100.00%	100.00%
Western Biomedical Pty Ltd*	Australia	100.00%	100.00%
Designs For Vision Holdings Pty Ltd*	Australia	100.00%	100.00%
Designs For Vision (Aust) Pty Ltd*	Australia	100.00%	100.00%
Designs For Vision Pty Ltd*	Australia	100.00%	100.00%
Electro Medical Group Pty Ltd*	Australia	100.00%	100.00%
MIDAS Software Solutions Pty Ltd*	Australia	100.00%	100.00%
Immulab Pty Ltd*	Australia	100.00%	100.00%
Insight Surgical Pty Ltd*	Australia	100.00%	100.00%
MedTech Solution Pty Ltd*	Australia	100.00%	100.00%
Surgical Specialities Holdings Pty Ltd*	Australia	100.00%	100.00%
Surgical Specialities Group Pty Ltd*	Australia	100.00%	100.00%
Surgical Specialities Pty Ltd*	Australia	100.00%	100.00%
Therapy Specialities Pty Ltd*	Australia	100.00%	100.00%
Surgical Specialities (NZ) Ltd*	New Zealand	100.00%	100.00%
Therapy Specialities Ltd*	New Zealand	100.00%	100.00%
Pergamon Technologies Pty Ltd*	Australia	100.00%	100.00%
Immuno Pty Ltd*	Australia	100.00%	100.00%
Immuno Ltd*	New Zealand	100.00%	100.00%
Labgear Australia Pty Ltd*	Australia	100.00%	100.00%
Paragon Medical Pty Ltd*	Australia	100.00%	100.00%
Scanmedics Pty Ltd*	Australia	100.00%	100.00%
Lovell Surgical Supplies International Pty Ltd*	Australia	100.00%	100.00%
Lovell Surgical Supplies Pty Ltd*	Australia	100.00%	100.00%
Lovell Surgical Solutions Pty Ltd*	Australia	100.00%	100.00%
Total Communications (Australia) Pty Ltd*	Australia	100.00%	100.00%
AH563 Pty Ltd**	Australia	100.00%	100.00%
RA483 Pty Ltd**	Australia	100.00%	100.00%
Paragon Healthcare Pty Ltd**	Australia	100.00%	100.00%
GM374 Pty Ltd**	Australia	100.00%	100.00%
IM633 Pty Ltd**	Australia	100.00%	100.00%
Volker Australia Pty Ltd**	Australia	100.00%	100.00%
LR142 Pty Ltd**	Australia	100.00%	100.00%
RM988 Pty Ltd**	Australia	100.00%	100.00%
UN609 Pty Ltd**	Australia	100.00%	100.00%
Walkit Pty Ltd**	Australia	100.00%	100.00%

* Subsidiary of Paragon Care Group Holding Company Pty Ltd
** Subsidiary of AH563 Pty Ltd

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

NOTE 43. Deed of cross guarantee

The Company and its controlled entities, as listed in note 42 'Interests in subsidiaries', are party to a deed of cross guarantee under which each company guarantees the debts of the others.

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

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

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

NOTE 44. Cash flow information

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

	2020 $'000	2019 $'000
Loss after income tax (expense)/benefit for the year	(77,269)	(14,386)
Adjustments for:		
Depreciation and amortisation	8,053	10,008
Impairment of non-current assets	57,234	17,799
Impaiment of other assets	17,194	-
Allowance for expected credit losses	940	-
Loss on disposal of business	-	5,938
Write-back of provision for vendor earn-out	-	(1,163)
Initial recognition of right of use assets on adoption of AASB 16	-	(2,455)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	11,421	4,750
Decrease/(increase) in inventories	4,745	(7,443)
Decrease/(increase) in income tax refund due	5,666	(5,736)
Increase in deferred tax assets	(7,365)	(2,696)
Decrease in derivative assets	291	1,024
Decrease in trade and other payables	(20,079)	(4,284)
Increase in derivative liabilities	4,577	-
Decrease in provision for income tax	-	(767)
Increase/(decrease) in employee benefits	(121)	569
Net cash from operating activities	5,287	1,158

Non-cash investing and financing activities

	2020 $'000	2019 $'000
Shares issued in relation to business combinations	-	3,093
Reduction in lease liability arising from lease modification	(3,000)	-
	(3,000)	**3,093**

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

Note 44. Cash flow information (continued)

Changes in liabilities arising from financing activities

	Bank loans $'000	Trade finance facility $'000	Lease liability/ hire purchase $'000	Total $'000
Balance at 1 July 2018	**96,322**	**5,859**	**2,636**	**104,817**
Net cash used in financing activities	(4,000)	(488)	(950)	(5,438)
Acquisition of leases	-	-	22,252	22,252
Balance at 30 June 2019	**92,322**	**5,371**	**23,938**	**121,631**
Net cash used in financing activities	(5,925)	6,076	(3,754)	(3,603)
Reduction in lease liability arising from lease modification	-	-	(3,000)	(3,000)
Balance at 30 June 2020	**86,397**	**11,447**	**17,184**	**115,028**

Note 45. Earnings per share

Continuing operations

	2020 $'000	2019 $'000
Earnings per share for profit/(loss) from continuing operations		
Profit/(loss) after income tax attributable to the owners of Paragon Care Limited	(71,600)	8,862
	(71,600)	**8,862**

	2020 Number	2019 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	337,885,292	320,062,582
Adjustments for calculation of diluted earnings per share:		
Performance rights	-	238,340
Weighted average number of ordinary shares used in calculating diluted earnings per share	337,885,292	320,300,922

	2020 cents	2019 cents
Basic earnings per share	(21.19)	2.77
Diluted earnings per share	(21.19)	2.77

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

Note 45. Earnings per share (continued)

Discontinued operations

	2020 $'000	2019 $'000
Earnings per share for loss from discontinued operations		
Loss after income tax attributable to the owners of Paragon Care Limited	(5,669)	(23,248)
	(5,669)	**(23,248)**

	2020 Number	2019 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	337,885,292	320,062,582
Weighted average number of ordinary shares used in calculating diluted earnings per share	337,885,292	320,062,582

	2020 cents	2019 cents
Basic earnings per share	(1.68)	(7.26)
Diluted earnings per share	(1.68)	(7.26)

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

Overall profit/(loss)

	2020 $'000	2019 $'000
Earnings per share for profit/(loss)		
Profit/(loss) after income tax attributable to the owners of Paragon Care Limited	(77,269)	(14,386)
	(77,269)	**(14,386)**

	2020 Number	2019 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	337,885,292	320,062,582
Weighted average number of ordinary shares used in calculating diluted earnings per share	337,885,292	320,062,582

	2020 cents	2019 cents
Basic earnings per share	(22.87)	(4.49)
Diluted earnings per share	(22.87)	(4.49)

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

Note 46. Share-based payments

Employee Incentive Plan ('EIP')

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

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

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

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

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

Performance rights

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

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

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

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

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

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

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

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

Notes to and forming part of the Financial Statements *Continued*
For the year ended 30 June 2020

Note 46. Share-based payments (continued)

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

2020

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

2019

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/forfeited/ other	Balance at the end of the year
14/12/2018	30/09/2021	-	228,119	-	-	228,119
26/04/2019	30/09/2022	-	633,886	-	-	633,886
		-	**862,005**	**-**	**-**	**862,005**

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

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

Grant date	Expiry date	Share price at grant date	Fair value at grant date
14/12/2018	30/09/2021	$0.8055	$0.8055
26/04/2019	30/09/2022	$0.4450	$0.4450

Note 47. Events after the reporting period

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

The land and buildings situated at 19-21 Peninsula Boulevard, Seaford VIC was sold on the 3 August 2020. As at the reporting date the property was actively for sale, the property was classified as held-for-sale.

On 26 August 2020, the Group received approval from its bankers for an amendment to its banking facilities. This has resulted in a relaxation of the Group's obligation to comply with the existing facility covenants through to September 2021. The amendment also resulted in the deferment of the Group's quarterly facility repayments until December 2021, totalling $6 million.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

For the year ended 30 June 2020

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 43 to the financial statements.

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

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

On behalf of the directors

Shane Tanner
Chiarman

31 August 2020
Melbourne

Auditor's Report

Independent Audit Report

For the year ended 30 June 2020

RSM

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PARAGON CARE LIMITED

Opinion

We have audited the financial report of Paragon Care Limited ("the Company") and its subsidiaries (together referred to as "the Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 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 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 2020

Key Audit Matters

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Impairment of Goodwill on acquisition
Refer to Note 21 in the financial statements</td></tr>
<tr><td>As at 30 June 2020, the Group had goodwill with a carrying amount of $149 million relating to its numerous acquisitions in recent years

As required by AASB 136 Impairment of Assets, management has performed an impairment assessment over the goodwill balance as at 30 June 2020 by:
• calculating the recoverable amount of the cash generating unit ("CGU"), which was determined to be the value in use of the CGU, using a discounted cash flow model. This model used cash flow projections for the CGU for 5 years, with a terminal growth rate applied to the 5th year. The cash flow projections were then discounted to net present value using the Company's weighted average cost of capital ("WACC"); and
• comparing the resulting value in use of the CGU to the CGU's carrying amount.

As a result of this exercise, an impairment of goodwill of $54.2 million was recognised during the year. Management also performed a sensitivity analysis over the value in use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC) to assess the impact on the valuations.

We determined the impairment of goodwill to be a Key Audit Matter due to the materiality of the goodwill balance, and because the directors' assessment of the 'value in use' of the CGU involves judgements about the future underlying cash flows of the business, estimated growth rates for the CGU for the next 5 years as well as in perpetuity, and the discount rates applied to the estimated cash flows. We note that the impact of the COVID-19 pandemic on the current market conditions has increased the level of judgement by the directors in estimating future cash flows.</td><td>Our audit procedures in relation to management's impairment assessment involved the assistance of our Corporate Finance team where required, and included:
• Assessing management's determination that the goodwill should be allocated to a single CGU based on the nature of the Group's business and the manner in which results are monitored and reported;
• Assessing the value in use calculations;
• Challenging the reasonableness of key assumptions, including the cash flow projections, future growth rates, discount rates and terminal values, with a particular focus on the impact of COVID-19 on these assumptions;
• Checking the mathematical accuracy of the cash flow model and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and
• Reviewing management's sensitivity analysis over the key assumptions in the model, including the consideration of additional impairment and assessing whether the assumptions have been applied on a consistent basis across each scenario;
• Reviewing management's calculation of the impairment amount as at 30 June 2020; and
• Assessing the disclosures in Note 21 to the financial statements to assess compliance with the disclosure requirements of AASB136 Impairment of assets and AASB138 Intangible assets.</td></tr>
</table>

Independent Audit Report *Continued*
For the year ended 30 June 2020

Key Audit Matters (Continued)

Impairment of assets and discontinued operations Refer to Note 8 and 10 in the financial statements	
During the year the Group has undertaken a restructure of its business operations, resulting in rationalisation of sites across Australia and necessitating the impairment of buildings, leasehold improvements, plant and equipment and right-of-use assets. The Group has also undertaken a review of historical software development and research and development and closed and impaired the non-strategic projects undertaken during the past few years which it no longer believes will produce economic benefits in the future. The Group has also impaired the costs associated with the ERP system implemented over the last two years as the old ERP system is being abandoned. This has resulted in recognition of an impairment loss of $14 million during the year. In addition, the directors approved during the year, the closure of the MIDAS software business as they believe the software is unlikely to result in sufficient returns to justify continued investment. This has resulted in recognition of an impairment loss of $6.2 million during the year. This was identified as a Key Audit Matter due to the materiality of the impairment expenses recognised during the year and because this involves significant management estimates and judgements in identification of assets which are impaired.	Our audit procedures in relation to impairment of assets and discontinued operations included, among others: • Obtaining an understanding of key controls relating to the impairment review process and identification of discontinued operations; • Performed enquiries of management and inspected the minutes of Board meetings approving the closure of projects, rationalisation of business operations, and the MIDAS software business; • Evaluating and challenging management's impairment assessment with due consideration paid to the estimated profitability and performance of development projects and systems; • Assessing the mathematical accuracy of the calculations and accounting for the impairment expense; and • Assessing accounting policy, account balance classifications and note disclosures to ensure that they are in accordance with the requirements of the Australian Accounting Standards.

Independent Audit Report *Continued*
For the year ended 30 June 2020

Key Audit Matters (Continued)

Inventory Valuation, including provision for inventory obsolescence Refer to Note 13 in the financial statements	
The Group's inventory balance, as disclosed in Note 13, consists primarily of finished goods of various medical equipment held for distribution. During the year, the Group made a change in accounting estimate in relation to the provision for inventory obsolescence as well as impairing all inventory product lines identified for rationalisation as a result of an inventory review undertaken as part of the Group's ongoing restructure and as a result of the impacts of COVID-19. Inventory is valued at the lower of cost and net realisable value. The determination of net realisable value of inventory requires a significant degree of management judgement including assumptions concerning the provision for obsolescence, as well as future market conditions based on changing customer needs and market trends. 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 valuation of inventory and provision for obsolescence included: • Obtained an understanding of key controls relating to inventory management and its revised provision for inventory obsolescence policy; • Evaluating management's assumptions and estimates applied to the provision for obsolescence through analysis of inventory ageing and historical sales levels by inventory product from the date the product was purchased in conjunction with assessing the quantity of products held; • Understanding the changes in the provisioning methodology and assessing the appropriateness thereof; • Assessing and validating the key assumptions applied by management in estimating the provision, with particular reference to the impact of COVID-19 on sales and purchasing assumptions, by performing enquiries of management and reviewing the current purchasing strategy and rationalisation plans; • Testing the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and • Assessing the completeness and accuracy of disclosures in relation to change in accounting estimates within the financial statements in accordance with the Australian Accounting Standards.

Independent Audit Report *Continued*
For the year ended 30 June 2020

Key Audit Matters (Continued)

Recognition of Revenue Refer to Note 5 in the financial statements	
The Group's revenue from continuing operations for the year ended 30 June 2020 was $231.7 million. Whilst revenue recognition does not involve significant management estimates or judgements, it is considered a Key Audit Matter because of its significance to the Group's reported financial performance. The risk is heightened due to having distinct product lines within the medical equipment business (diagnostics, capital and consumables, devices, services and technology) across different accounting systems. Revenue recognition can be impacted by a failure to correctly measure revenue in accordance with applicable accounting standards and/or by applying an incorrect approach to period end cut-off.	Our audit procedures in relation to revenue recognition included: • Assessing whether the Group's revenue recognition policies were in compliance with the requirements of AASB 15 *Revenues from Contracts with Customers;* • Evaluating and testing the operating effectiveness of key controls related to revenue recognition; • Reviewing any large or unusual transactions close to the end of the financial year; • Conducting a combination of tests of controls, substantive analytical procedures and tests of details in respect of revenue related transactions; and • Reviewing disclosures in relation to impact on adoption of AASB 15 and the disaggregation of revenues in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, 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.

Independent Audit Report *Continued*
For the year ended 30 June 2020

Responsibilities of the Directors for the Financial Report (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

Report on the Remuneration Report

Opinion on the Remuneration Report
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Paragon Care Limited, for the year ended 30 June 2020, 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

M PARAMESWARAN
Partner

Dated: 31 August 2020
Melbourne, Victoria

Shareholder Information

Shareholder Information

For the year ended 30 June 2020

The shareholder information set out below was applicable as at 11 August 2020.

Distribution of equity securities

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

Fully Paid Ordinary Shares

	Number of holders of ordinary shares	Number of shares	%
1 to 1,000	941	407,792	0.12
1,001 to 5,000	1,980	5,576,082	1.65
5,001 to 10,000	1,101	8,671,929	2.57
10,001 to 100,000	2,333	73,621,345	21.79
100,001 and Over	322	249,608,144	73.87
	6,677	**337,885,292**	**100.00**

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

Number of Units	Number of holders of ordinary shares	Number of shares	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	4	318,574	100.00
100,001 and Over	-	-	-
	4	**318,574**	**100.00**

Shareholder information *Continued*
For the year ended 30 June 2020

Equity Security Holders

Twenty largest quoted equity security holders

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

Ordinary Shares

Name	Units	% of Issued Shares
PERPETUAL CORPORATE TRUST LTD	50,418,386	14.92
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	40,736,228	12.06
CITICORP NOMINEES PTY LIMITED	15,710,093	4.65
JMT INVESTMENT GROUP VIC PTY LTD	5,000,000	1.48
BUTTONWOOD NOMINEES PTY LTD	4,904,174	1.45
NEGRONI HOLDINGS PTY LTD	4,727,531	1.40
MR PAUL ANDREW SCHOLLUM & MR JOHN KEITH RADLEY	4,717,320	1.40
SHEMOZEL PTY LTD	4,561,256	1.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,424,719	1.31
JMT INVESTMENT GROUP VIC PTY LTD	4,240,000	1.25
NEWMELD PTY LTD	4,078,172	1.21
GRILLS INVESTMENTS PTY LTD	3,773,585	1.12
NEWECONOMY COM AU NOMINEES PTY LIMITED	3,251,132	0.96
MR PAUL ANDREW SCHOLLUM & MRS KATRINA MAREE CALDWELL & MRS DEBORAH ANNE MOSS	3,106,538	0.92
LORA FALLS PTY LTD	3,000,000	0.89
BRENT MICHAEL STEWART & MICHELLE JANE STEWART	2,823,466	0.84
JOHN KEITH RADLEY & PAUL ANDREW SCHOLLUM	2,595,540	0.77
MR BRIAN DUNCAN WILSHER	2,301,147	0.68
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,970,344	0.58
GRAYSON NOMINEES PTY LTD	1,934,720	0.57
	168,274,351	**49.81**

Substantial holders

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

	Number held	% of total shares issued
Pioneer Hong Kong Group and the Lis	57,856,735	17.12
First Samuel Limited	39,705,148	11.75

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares:

	Holders	Number of shares	%
Fully Paid Ordinary Shares			
Holdings less than a marketable parcel	2,017	2,381,606	30.21

Voting rights

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

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

Unlisted performance rights
Unlisted performance rights do not carry any voting rights.

There are no other classes of equity securities.

Additional shareholder information

The 2020 Annual General Meeting will be held on Wednesday, 18 November 2020 at 1.00pm (AEDT).

In accordance with rule 3.5 of the Company's constitution, the Closing Date for Nomination of Director is Wednesday, 7 October 2020.

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