ParagonCare

1. Company details

Name of entity:	Paragon Care Limited
ABN:	76 064 551 426
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

2. Results for announcement to the market

	HY21 $'000	HY20 $'000	Change from HY20 %
Revenue	**115,012**	**120,624**	**(5%)**
Profit/(loss) after tax	**5,196**	**1,399**	**271%**
Basic earnings per share	1.54	0.41	276%
Diluted earnings per share	1.54	0.41	276%
Net tangible assets per share	(9.93)	(7.53)	(32%)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments

	HY21 $'000	HY20 $'000	Change from HY20 %
Revenue from continuing operations	**115,012**	**120,562**	**(5%)**
Cost of goods sold	(70,522)	(75,082)	6%
Gross profit	**44,490**	**45,480**	**(2%)**
Gross profit margin %	*38.7%*	*37.7%*	
Other income	1,497	1,208	
Operating expenses	(31,263)	(37,635)	
Earnings before interest, tax, depreciation and amortisation from continuing operations	14,724	9,053	63%
Depreciation and amortisation	(3,107)	(4,365)	
Earnings before interest and tax	11,617	4,688	
Interest expense	(3,825)	(2,736)	
Profit before tax	7,792	1,952	
Tax expense	(2,596)	(572)	
Profit after tax from continuing operations	5,196	1,380	
Profit after tax from discontinued operations	-	19	
Profit after tax attributable to owners	**5,196**	**1,399**	

Key highlights from the results include:

- **Streamlined operations driving improved profitability:** Delivered over $7m in annualised savings with EBITDA up 63% on pcp to $14.7m.
- **Improved working capital cycle increased operating cashflow:** Operating cashflow increased to $15.5m due to significant reduction in working capital cycle and improved operating performance.
- **Vendor earnout payments substantially completed during the first half:** $14.3 million vendor earnout payments were made during the period, the remaining $1 million will be paid before March 2021.
- **Diversified portfolio generated revenue stability:** Revenue down by only 5% on pcp to $115m despite COVID disrupted healthcare market due to diversified product and geographic offering.
- **Decreased net debt:** Over the past year, net debt decreased by 4% from $79.4m in 1H FY20 to $76.3m in 1H FY21, due to increased cash balance and deferment of repayments.
- **Growth strategy to leverage cross-sell capabilities:** Customer demand for best-in-breed solutions across a range of healthcare products is driving opportunities for growth through internal cross-selling and expanded market share.

1H FY21 Financial Results – Highlights

	1H FY21	1H FY20	Δ
Revenue	$115m	$120.6m	5%
EBITDA	$14.7m	$9.1m	63%
NPAT	$5.2m	$1.4m	271%
Working Capital Cycle	133 days	161 days	28 days
Operating Cashflow	$15.5m	$(8.6)m	$24.1m
Net debt	$76.3m	$79.4m	4%
EPS	1.54 cps	0.41 cps	276%

1H FY21 Financial Results

Revenue in 1H FY21 was $115m, down only 5% from $120m in 1H FY20, which was a solid result in a COVID disrupted healthcare market. Our Q1 FY21 revenue was down 4.7% on the previous corresponding period (pcp) and stabilised in Q2 to be in line with pcp.

Gross profit margins improved to 38.7% in 1H FY21, up from 37.7% on pcp. In Q1 FY21, gross profit margins declined to 37.5% due to a temporary change in the sales mix to lower margin product sales such as personal protective equipment. However, our gross margins improved in Q2, in line with our expectations, as elective surgery ramped up with the associated increase in higher margin sales.

Over the past year, we have effectively implemented a cost rationalisation strategy relating to facilities consolidation, inventory rationalisation and freight management initiatives. These initiatives, in combination with the structural change in operating costs in the COVID-disrupted operating environment, have generated ~$7m in annualised cost savings. These operational savings are in addition to the $3m contribution from JobKeeper in 1H FY21. The JobKeeper payment of $3m was only received in Q1 FY21 as the business improvement in Q2 rendered the Company ineligible for ongoing payments.

Our operating performance improved significantly in 1H FY21, with EBITDA increasing by 63% in 1H FY21 to $14.7m, up from $9.1m in 1H FY20. This reflects operational savings of around $2m in employee expenses (excluding the impact of JobKeeper), $700K on marketing and $1.3m in other expenses including travel costs and consulting fees. These savings were partially offset by a $600K increase in ITC costs.

We expect most of these savings to be sustainable on an ongoing basis as we transition back to a new 'COVID-normal' operating environment. We expect to benefit from lower underlying employee expenses moving forward and we expect further improvement in distribution costs over time. However, we expect travel expenses to increase as the economy re-opens.

Operating cashflow of $15.5m in 1H FY21 was driven by stronger business performance and an improved working capital cycle, down from 161 days in 1H FY20 to 133 days in 1H FY21.

In 1H FY21, $14.3m in cash was paid in earn-outs relating to the prior acquisitions. As at 31 December 2020, there remains only $1m in vendor conditional payables, thus further improving cashflow from 2H FY21 onwards. Most of these earn-outs were paid in Q1 and therefore the cash balance increased substantially in Q2 to $26.6m as at 31 December 2020, up from $13.4m as at 30 September 2020. Over the past year, net debt has decreased by 4% from $79.4m in 1H FY20 to $76.3m in 1H FY21.

In August 2020, we received approval from our bankers to an amendment the banking facilities to relax our obligations to comply with existing facility covenants through to September 2021. This amendment resulted in the deferment of our quarterly facility payments until December 2021, totalling $4.5m.

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

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3. Authority for release

Authorised for release by the Board of Directors

23 February 2021

Paragon Care Limited

ABN 76 064 551 426

Interim Report - 31 December 2020

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 half-year ended 31 December 2020.

Directors

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

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

Principal activities

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

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

Review of operations

The profit for the Group after providing for income tax amounted to $5,196,000 (31 December 2019: $1,399,000).

	HY21 $'000	*HY20 $'000*	*Change from HY20 %*
Revenue from continuing operations	115,012	120,562	(5%)
Cost of goods sold	(70,522)	(75,082)	6%
Gross profit	**44,490**	**45,480**	**(2%)**
Gross profit margin %	*38.7%*	*37.7%*	
Other income	1,497	1,208	
Operating expenses	(31,263)	(37,635)	
Earnings before interest, tax, depreciation and amortisation from continuing operations	**14,724**	**9,053**	63%
Depreciation and amortisation	(3,107)	(4,365)	
Earnings before interest and tax	11,617	4,688	
Interest expense	(3,825)	(2,736)	
Profit before tax	7,792	1,952	
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Profit after tax from continuing operations	5,196	1,380	
Profit after tax from discontinued operations	-	19	
Profit after tax attributable to owners	**5,196**	**1,399**	

Key highlights from 1H FY21 Operations

- **Streamlined operations driving improved profitability:** Delivered over $7m in annualised savings with EBITDA up 63% on pcp to $14.7m.
- **Improved working capital cycle increased operating cashflow:** Operating cashflow increased to $15.5m due to significant reduction in working capital cycle and improved operating performance.
- **Vendor earnout payments substantially completed during the first half:** $14.3 million vendor earnout payments were made during the period, the remaining $1 million will be paid before March 2021.
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1H FY21 Financial Results – Highlights

	1H FY21	1H FY20	Δ
Revenue	$115m	$120.6m	↓ 5%
EBITDA	$14.7m	$9.1m	↑ 63%
NPAT	$5.2m	$1.4m	↑ 271%
Working Capital Cycle	133 days	161 days	↓ 28 days
Operating Cashflow	$15.5m	$(8.6)m	↑ $24.1m
Net debt	$76.3m	$79.4m	↓ 4%
EPS	1.54 cps	0.41 cps	↑ 276%

1H FY21 Financial Results

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Gross profit margins improved to 38.7% in 1H FY21, up from 37.7% on pcp. In Q1 FY21, gross profit margins declined to 37.5% due to a temporary change in the sales mix to lower margin product sales such as personal protective equipment. However, our gross margins improved in Q2, in line with our expectations, as elective surgery ramped up with the associated increase in higher margin sales.

Over the past year, we have effectively implemented a cost rationalisation strategy relating to facilities consolidation, inventory rationalisation and freight management initiatives. These initiatives, in combination with the structural change in operating costs in the COVID-disrupted operating environment, have generated ~$7m in annualised cost savings. These operational savings are in addition to the $3m contribution from JobKeeper in 1H FY21. The JobKeeper payment of $3m was only received in Q1 FY21 as the business improvement in Q2 rendered the Company ineligible for ongoing payments.

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We expect most of these savings to be sustainable on an ongoing basis as we transition back to a new 'COVID-normal' operating environment. We expect to benefit from lower underlying employee expenses moving forward and we expect further improvement in distribution costs over time. However, we expect travel expenses to increase as the economy re-opens.

Operating cashflow of $15.5m in 1H FY21 was driven by stronger business performance and an improved working capital cycle, down from 161 days in 1H FY20 to 133 days in 1H FY21.

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Significant changes in the state of affairs

The impact of the COVID-19 pandemic is ongoing, and it is not practicable to estimate the potential 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 for $1.8m on 3 August 2020.

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 $4.5m.

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

Rounding of amounts

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Shane Tanner
Chairman

23 February 2021
Melbourne

RSM Australia Partners

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

T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Paragon Care Limited and its controlled entities for the half year ended 31 December 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 review; and

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

RSM

RSM AUSTRALIA PARTNERS

M PARAMESWARAN
Partner

Dated: 23 February 2021
Melbourne, Victoria

ParagonCare

	Note	Group 31 Dec 2020 $'000	Group 31 Dec 2019 $'000
Revenue			
Sale of goods	4	115,012	120,562
Cost of goods sold		(70,522)	(75,082)
Gross profit		44,490	45,480
Other income		985	1,098
Interest revenue calculated using the effective interest method		12	110
Fair value gain on derivative liability		500	-
Expenses			
Employee benefits expense	5	(21,572)	(26,531)
Depreciation and amortisation expense		(3,107)	(4,365)
Distribution expenses		(3,082)	(2,778)
Marketing expenses		(360)	(1,057)
Occupancy expenses		(823)	(531)
Other expenses	6	(5,426)	(6,738)
Finance costs		(3,825)	(2,736)
Profit before income tax expense from continuing operations		7,792	1,952
Income tax expense		(2,596)	(572)
Profit after income tax expense from continuing operations		5,196	1,380
Profit after income tax expense from discontinued operations		-	19
Profit after income tax expense for the half-year attributable to the owners of Paragon Care Limited		5,196	1,399
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		(982)	(706)
Foreign currency translation		(3)	585
Other comprehensive income for the half-year, net of tax		(985)	(121)
Total comprehensive income for the half-year attributable to the owners of Paragon Care Limited		4,211	1,278
Total comprehensive income for the half-year is attributable to:			
Continuing operations		4,211	1,278
Discontinued operations		-	-
		4,211	1,278

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

ParagonCare

	Cents	Cents
Earnings per share for profit from continuing operations attributable to the owners of Paragon Care Limited		
Basic earnings per share	1.54	0.41
Diluted earnings per share	1.54	0.41
Earnings per share for profit from discontinued operations attributable to the owners of Paragon Care Limited		
Basic earnings per share	-	0.01
Diluted earnings per share	-	0.01
Earnings per share for profit attributable to the owners of Paragon Care Limited		
Basic earnings per share	1.54	0.41
Diluted earnings per share	1.54	0.41

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

Paragon Care Limited
Consolidated statement of financial position
As at 31 December 2020

ParagonCare

	Note	Group 31 Dec 2020 $'000	Group 30 Jun 2020 $'000
Assets			
Current assets			
Cash and cash equivalents		26,585	24,505
Trade and other receivables		25,527	31,574
Inventories		43,998	46,662
Income tax refund due		486	70
Other assets		2,725	1,694
		99,321	104,505
Non-current assets classified as held for sale		-	1,800
Total current assets		99,321	106,305
Non-current assets			
Property, plant and equipment		8,032	7,184
Right-of-use assets		8,792	14,265
Intangibles		150,562	149,660
Deferred tax		13,306	14,757
Total non-current assets		180,692	185,866
Total assets		280,013	292,171
Liabilities			
Current liabilities			
Trade and other payables		27,781	26,921
Borrowings	7	17,824	16,767
Lease liabilities		3,660	3,722
Derivative financial instruments		6,615	5,711
Employee benefits		4,750	4,572
Vendor conditional payables	8	1,067	15,331
Other liabilities	9	9,147	11,853
Total current liabilities		70,844	84,877
Non-current liabilities			
Borrowings	7	85,122	82,159
Lease liabilities		6,773	12,380
Employee benefits		752	474
Total non-current liabilities		92,647	95,013
Total liabilities		163,491	179,890
Net assets		116,522	112,281
Equity			
Issued capital		202,718	202,718
Reserves		2,570	(1,671)
Accumulated losses		(88,766)	(88,766)
Total equity		116,522	112,281

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

Group	Issued capital $'000	Foreign currency translation reserve $'000	Hedging reserve - cash flow hedges $'000	Option reserve $'000	Dividend reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019	202,718	891	204	-	-	(11,497)	192,316
Profit after income tax expense for the half-year	-	-	-	-	-	1,399	1,399
Other comprehensive income for the half-year, net of tax	-	585	(706)	-	-	-	(121)
Total comprehensive income for the half-year	-	585	(706)	-	-	1,399	1,278
Balance at 31 December 2019	202,718	1,476	(502)	-	-	(10,098)	193,594

Group	Issued capital $'000	Foreign currency translation reserve $'000	Hedging reserve - cash flow hedges $'000	Option reserve $'000	Dividend reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	202,718	(877)	(794)	-	-	(88,766)	112,281
Profit after income tax expense for the half-year	-	-	-	-	-	5,196	5,196
Other comprehensive income for the half-year, net of tax	-	(3)	(982)	-	-	-	(985)
Total comprehensive income for the half-year	-	(3)	(982)	-	-	5,196	4,211
Transfer to dividend reserve (note 10)	-	-	-	-	5,196	(5,196)	-
Transactions with owners in their capacity as owners:							
Share-based payments	-	-	-	30	-	-	30
Balance at 31 December 2020	202,718	(880)	(1,776)	30	5,196	(88,766)	116,522

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

	Note	Group 31 Dec 2020 $'000	Group 31 Dec 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		131,923	131,777
Payments to suppliers and employees (inclusive of GST)		(115,250)	(134,826)
Government assistance received (JobKeeper subsidy)		2,985	-
Other income		836	-
Interest received		12	110
Interest and other finance costs paid		(3,825)	(2,736)
Income taxes paid		(1,140)	(2,905)
Net cash from/(used in) operating activities		15,541	(8,580)
Cash flows from investing activities			
Payment for prior period purchase of businesses	8	(14,264)	-
Payments for property, plant and equipment		(2,178)	(1,466)
Payments for intangibles		(1,040)	(3,085)
Payments for security deposits		(161)	(475)
Proceeds from disposal of investments		-	22
Proceeds from disposal of property, plant and equipment		1,838	239
Net cash used in investing activities		(15,805)	(4,765)
Cash flows from financing activities			
Proceeds from borrowings (net)		4,760	-
Repayment of borrowings (net)		-	(1,203)
Repayment of lease liabilities		(2,416)	(1,253)
Net cash from/(used in) financing activities		2,344	(2,456)
Net increase/(decrease) in cash and cash equivalents		2,080	(15,801)
Cash and cash equivalents at the beginning of the financial half-year		24,505	34,224
Cash and cash equivalents at the end of the financial half-year		26,585	18,423

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

Note 1. General information

The financial statements cover Paragon Care Limited as a Group consisting of Paragon Care Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-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 23 February 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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.

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

Change in expense classification

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

	Half-year ended 31 December 2020			*Half-year ended 31 December 2019*		
	Current classification $'000	*Previous classification $'000*	*Change $'000*	*Current classification $'000*	*Previous classification $'000*	*Change $'000*
Employee benefits expense	21,572	-	21,572	26,531	-	26,531
Depreciation and amortisation expense	3,107	-	3,107	4,365	-	4,365
Other expenses	5,426	-	5,426	6,738	-	6,738
Administration	-	30,105	(30,105)	-	37,634	(37,634)
	30,105	30,105	-	37,634	37,634	-

Note 3. Operating segments

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

Note 4. Revenue

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

	Group	
	31 Dec 2020 $'000	31 Dec 2019 $'000
Major product lines		
Diagnostic Product Line	12,643	11,740
Capital and Consumables Product Line	52,988	55,978
Devices Product Line	40,269	39,099
Services and Technology	9,112	13,745
	115,012	120,562
Geographical regions		
Australia	87,861	97,329
New Zealand	26,322	23,128
Other	829	105
	115,012	120,562
Timing of revenue recognition		
Goods transferred at a point in time	105,900	106,817
Services transferred over time	9,112	13,745
	115,012	120,562

Note 5. Employee benefits expense

	Group	
	31 Dec 2020 $'000	31 Dec 2019 $'000
Payroll costs	23,086	24,920
Defined contributions superannuation expense	1,441	1,611
Share-based payments expense	30	-
JobKeeper subsidy	(2,985)	-
	21,572	26,531

Share-based payments expense
During September 2020, the company issued 6,725,736 Performance Rights ('PRs') to members of the leadership team for nil consideration. These PRs have been granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. The PRs vest in three tranches and are dependent upon achievement of market conditions over the vesting period.

The fair value of the PRs is determined using the Binomial option pricing model that takes into account among other things, the exercise price, the term of the PR, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the PR.

ParagonCare

Note 5. Employee benefits expense (continued)

The share-based payments expense recognised for the period ended 31 December 2020 is $30,000 (2019: Nil).

Note 6. Other expenses

	Group	
	31 Dec 2020 $'000	31 Dec 2019 $'000
Management consulting fees	1,007	1,299
Professional fees	608	945
Telephone and internet costs	1,715	1,102
Travel costs	611	1,843
Allowance for expected credit losses	233	-
Net loss on sale of assets	129	-
Net foreign exchange loss	34	-
Other corporate costs	1,089	1,549
	5,426	6,738

Note 7. Borrowings

	Group	
	31 Dec 2020 $'000	30 Jun 2020 $'000
Current liabilities		
Bank loans	1,500	4,500
Trade finance facility	16,207	11,447
Hire purchase	117	820
	17,824	16,767
Non-current liabilities		
Bank loans	84,897	81,897
Hire purchase	225	262
	85,122	82,159

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 $4.5m.

Note 8. Vendor conditional payables

	Group	
	31 Dec 2020 $'000	30 Jun 2020 $'000
Current liabilities		
Vendor conditional payables	1,067	15,331

Payments of $14,264,000 were made in the period in satisfaction of the conditional payables.

Note 9. Other liabilities

	Group	
	31 Dec 2020 $'000	30 Jun 2020 $'000
Current liabilities		
Accrued expenses	7,844	10,146
Deferred revenue	1,303	1,707
	9,147	11,853

Note 10. Dividend reserve

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

Note 11. Contingent liabilities

The Group has given bank guarantees as at 31 December 2020 of $1,467,196 (30 June 2020: $5,004,123).

Legal proceedings settled
The Company's legal proceedings, as noted in the 30 June 2020 Annual Report, were settled on 7 December 2020. The litigation was settled through mediation with the Defendants and their legal representatives. The details of the mediation and the outcome of the settlement terms are confidential and privileged. The Company will not be commenting further in relation to them.

Note 12. Events after the reporting period

No matter or circumstance has arisen since 31 December 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.

ParagonCare

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Shane Tanner
Chairman

23 February 2021
Melbourne

RSM Australia Partners
Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007
T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199
www.rsm.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF PARAGON CARE LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Paragon Care Limited ("the company") and its controlled entities (together referred to as "the Group") which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Paragon Care Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM AUSTRALIA PARTNERS

M PARAMESWARAN
Partner

Dated: 23 February 2021
Melbourne, Victoria