

Paragon Fund

ARSN 161 565 920

Annual Report - for the period ended 30 June 2013

Paragon Fund

ARSN 55 102 764 291

Annual Report - 30 June 2013

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These financial statements cover Paragon Fund as an individual entity.

The Responsible Entity of Paragon Fund is Paragon Funds Management Ltd (ABN 42 159 623 873). The Responsible Entity's registered office is:

Suite 2, Level 2,
1 Little Collins Street,
Melbourne VIC 3000

**Paragon Fund
Directors' Report
For the period ended 30 June 2013**

Directors' Report

The Directors of Paragon Funds Management Ltd, the Responsible Entity of Paragon Fund, present their report together with the financial statements of Paragon Fund ('the Fund') for the period ended 30 June 2013.

Principal activities

The Fund's mandate is to invest in Australian listed equities and derivatives, focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund Constitution.

The Fund did not have any employees during the period.

There were no significant changes in the nature of the Fund's activities during the period.

The various service providers of the Fund are detailed below:

Service	Provider
Responsible Entity	Paragon Funds Management Ltd
Investment Manager	Paragon Funds Management Ltd
Prime Broker	Merrill Lynch International
Statutory Auditor	Nexia Melbourne
Administrator and Registrar	White Outsourcing Pty Ltd

Directors

The following persons held office as Directors of Paragon Funds Management Ltd during the period or since the end of the period and up to the date of this report:

Mr John Deniz (appointed 25 July 2012)

Mr Nick Reddaway (appointed 25 July 2012)

Ms Hillier Deniz (appointed 25 July 2012)

Review and results of operations

During the period, the Fund continued to invest in accordance with the governing documents of the Fund and in accordance with the provisions of the Fund Constitution. During the period nil derivatives were traded.

The performance of the Fund, as represented by the results of its operations, was as follows:

	For the 4 month period ended 30 June 2013
	\$
Operating profit before finance costs attributable to unitholders	<u>11,346</u>

There were no distributions declared for the period.

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial period.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future periods, or
- (ii) the results of those operations in future financial periods, or
- (iii) the state of affairs of the Fund in future financial periods.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnity and insurance of officers

The Responsible Entity has paid an insurance premium to insure its Directors under a combined Professional Indemnity and Directors and Officers Insurance policy. Details of the indemnity insurance are as follows:

- The Directors, the Fund and the Responsible Entity are indemnified to an aggregate amount of \$5million, against any liability arising from a claim brought against them by a third party, for losses arising from a wrongful act (as defined in the policy), in relation to the provision of professional services provided by the Responsible Entity.
- The policy further indemnifies each of the following Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the Fund:

Mr John Deniz
Mr Nick Reddaway
Ms Hillier Deniz

The policy is a combined policy and as such, premiums for each Director cannot be quantified. Further disclosure of information relating to this policy is not permitted under the contract of insurance.

Indemnity of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the period are disclosed in Note 14 to the financial statements.

No fees were paid out of Fund property to the Directors of the Responsible Entity during the period.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial period are disclosed in Note 14 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the period is disclosed in Note 6 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

**Paragon Fund
Directors' Report
For the period ended 30 June 2013
(continued)**

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.

A handwritten signature in blue ink, appearing to read 'John Deniz', is positioned above the printed name and title.

Mr John Deniz
Director

Melbourne, VIC
25 September 2013

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PARAGON FUNDS MANAGEMENT LTD, THE RESPONSIBLE ENTITY**

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2013, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.


NEXIA MELBOURNE
ABN 16 847 721 257


GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

25 September 2013

Nexia Melbourne

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Paragon Fund
Statement of Comprehensive Income
For the period ended 30 June 2013

Statement of Comprehensive Income

	Notes	For the 4 month period ended 30 June 2013 \$
Investment income		
Dividend income		16,989
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	11,085
Interest income		18,633
Total net investment income		<u>46,707</u>
Expenses		
Management fees	14	16,904
Performance fees	14	335
Custody fees		19
Transaction costs		6,582
Short dividend expense		1,850
Expense reimbursement fees		5,637
Other operating expenses		4,034
Total operating expenses		<u>35,361</u>
Operating profit before income tax		<u>11,346</u>
Finance costs attributable to unitholders		
Increase in net assets attributable to unitholders	6	<u>(11,346)</u>
Profit/(loss) for the year		-
Other comprehensive income for the year		<u>-</u>
Total comprehensive income for the year		<u>-</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Paragon Fund
Statement of Financial Position
As at 30 June 2013

Statement of Financial Position

	Notes	30 June 2013 \$
Assets		
Cash and cash equivalents	8	4,033,505
Receivables	9	83,994
Financial assets held at fair value through profit or loss	10	<u>2,029,492</u>
Total assets		<u>6,146,991</u>
Liabilities		
Payables	11	647,620
Due to brokers - payable for securities purchased	12	1,003,992
Financial liabilities held at fair value through profit or loss	13	<u>446,494</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>2,098,106</u>
Net assets attributable to unitholders - liability	6	<u>4,048,885</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Paragon Fund
Statement of Changes in Equity
For the period ended 30 June 2013

Statement of Changes in Equity

	For the 4 month period ended 30 June 2013 \$
Total equity at the beginning of the financial period	-
Profit/(loss) for the year	-
Other comprehensive income for the year	-
Total comprehensive income for the period	-
Transactions with owners in their capacity as owners	-
Total equity at the end of the financial period	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or the end of the period.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Paragon Fund
Statement of Cash Flows
For the period ended 30 June 2013

Statement of Cash Flows

	For the 4 month period ended 30 June 2013
Notes	\$
<i>Cash flows from operating activities</i>	
Proceeds from sale of financial instruments held at fair value through profit or loss	2,689,661
Purchase of financial instruments held at fair value through profit or loss	(3,257,582)
Dividends received	5,658
Interest received	18,307
Payment of other operating expenses	(3,507)
Management fees paid	(13,011)
Custody fees paid	(19)
Transaction costs paid	(7,446)
Expense reimbursement fees paid	(3,970)
<i>Net cash outflow from operating activities</i>	15(a) <u>(571,909)</u>
<i>Cash flows from financing activities</i>	
Proceeds from applications by unitholders	<u>4,605,414</u>
<i>Net cash inflow from financing activities</i>	<u>4,605,414</u>
<i>Cash and cash equivalents at the end of the period</i>	8 <u>4,033,505</u>
Non-cash financing activities	15(b) -

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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1 General information

These financial statements cover Paragon Fund ('the Fund') as an individual entity. The Fund was constituted on 6 December 2012, registered with the Australian Securities and Investments Commission on 20 December 2012 and commenced operations on 1 March 2013. The Fund will terminate on 5 December 2092 unless terminated earlier in accordance with the provisions of the Fund Constitution.

Paragon Fund is a registered managed investment scheme under the *Corporations Act 2001*.

The Responsible Entity of the Fund is Paragon Funds Management Ltd (the 'Responsible Entity'). The Responsible Entity's registered office is Suite 2, Level 2, 1 Little Collins Street, Melbourne, VIC 3000. The Responsible Entity is incorporated and domiciled in Australia.

The financial statements of the Fund are for the year ended 30 June 2013. The financial statements are presented in the Australian currency.

The financial period is for 4 months from 1 March 2013 to 30 June 2013. As this is the Fund's first year of operations there are no comparatives.

The financial statements were authorised for issue by the Directors of the Responsible Entity on 25 September 2013. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

The maturity analysis for financial liabilities at fair value through profit or loss is disclosed in Note 3: Financial risk management.

Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

New and amended standards adopted by the Fund

None of the new standards and amendments to standards that are mandatory for the first time for the financial period beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments. During the period nil derivatives were traded.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

Financial assets and liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Fund's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within net gains / (losses) on financial instruments held at fair value through profit or loss in the period in which they arise. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Further details on how the fair values of financial instruments are determined are disclosed in Note 3(e).

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the profit or loss.

Financial assets that are classified as loans and receivables include receivables and balances due from brokers.

Other financial liabilities

Financial liabilities not at fair value through profit or loss are measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue. Financial liabilities at amortised cost include distributions payable to unitholders of the Fund, balances due to brokers and payables.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unitholders exercised their right to redeem units in the Fund.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, 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 from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest on cash and cash equivalents is recognised on an accruals basis.

Other changes in fair value for financial instruments held at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b).

Dividend income is recognised on the ex-dividend date.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlements basis.

Other income is recognised on an accruals basis.

(f) Expenses

All expenses, including Responsible Entity's fees, performance fees, management fees, trustee's fees and custodian fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised losses, the excess is distributed to the unitholders.

The benefit of imputation credits is passed on to unitholders.

(h) Distributions

The Fund distributes its distributable income in accordance with the Fund Constitution, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

(j) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the period. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(k) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables also include such items as Reduced Input Tax Credits (RITC).

2 Summary of significant accounting policies (continued)

(l) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the Statement of Financial Position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(m) Applications and redemptions

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads (2013: +/-0.15%).

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees and performance fees have been passed onto the Fund. The Fund qualifies for RITC at a rate of at least 55%; hence investment management fees, performance fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(o) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

(p) Significant judgments made in the application of accounting policies

Related party relationship and control - managed investment schemes

While the Responsible Entity controls the financial and operating activities of the Fund in accordance with the Fund Constitution and Product Disclosure Statement, the Responsible Entity's fiduciary obligations to the unitholders of the Fund prevent it from benefiting directly from the activities of the Fund. Instead, the Responsible Entity governs the financial and operating activities of the Fund for the sole purpose of fulfilling its fiduciary obligation of acting in the best interest of the unitholders in its capacity as the Responsible Entity. Accordingly, the Directors do not consider that the Responsible Entity controls the Fund as defined in AASB 127: *Consolidated and Separate Financial Statements*.

However, for the purpose of AASB 124: *Related Party Disclosures*, the Directors consider that the Responsible Entity is a related party of the Fund as it is the management entity that provides key management personnel services to the Fund. Accordingly, both the Responsible Entity and its Directors are considered to be key management personnel of the Fund.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not been early adopted by the Fund. The Directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

- (i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosure* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss.

- (ii) *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Fund will adopt the new standard before its operative date, which means that it would be applied in the annual reporting period ending 30 June 2014. The Directors do not expect this to have a significant impact on the Fund.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund Constitution/Product Disclosure Statement, the offer document and the investment guidelines of the Fund and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The investments of the Fund are managed by the investment manager, Paragon Funds Management Ltd.

The Fund invests in a diversified portfolio of stocks comprising companies that are listed on the Australian Securities Exchange ('ASX'). The Fund may use derivatives to gain exposure to the underlying physical investments and for hedging purposes. Derivatives are not used speculatively.

Derivatives were not used at 30 June 2013.

The investment objective of the Fund is to produce absolute returns and capital growth for Unit Holders over a 3-5 year investment horizon before taking into account Fund fees and expenses.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and price risks and ratings analysis for credit risk.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Responsible Entity intends to limit this risk by ensuring strict adherence to the investment process.

(i) Price risk

Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's investments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Fund mitigates this price risk through diversification, in terms of company, industry, sector, and selection of securities in accordance with the Fund's investment guidelines.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

At 30 June, the overall net market exposures were as follows:

	30 June 2013 \$
Listed equities	2,029,492
Listed equities sold short	<u>(446,494)</u>
Total	<u>1,582,998</u>

The table under (b) below, summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests moved by +/- 15%.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

30 June 2013

	Floating interest rate \$	Fixed interest rate \$	Non- interesting bearing \$	Total \$
Financial assets				
Cash and cash equivalents	4,033,505	-	-	4,033,505
Receivables	-	-	83,994	83,994
Financial assets held at fair value through profit or loss	-	-	2,029,492	2,029,492
	<u>4,033,505</u>	<u>-</u>	<u>2,113,486</u>	<u>6,146,991</u>
Financial liabilities				
Payables	-	-	(647,620)	(647,620)
Due to brokers - payable for securities purchased	-	-	(1,003,992)	(1,003,992)
Financial liabilities held at fair value through profit or loss	-	-	(446,494)	(446,494)

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

30 June 2013

	Floating interest rate \$	Fixed interest rate \$	Non- interesting bearing \$	Total \$
	-	-	(2,098,106)	(2,098,106)
Net exposure	4,033,505	-	15,380	4,048,885

The weighted average interest rate of the Fund's cash and cash equivalents at 30 June 2013 is 2.13% pa.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The table below summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points from the period end rates with all other variables held constant.

(b) Summarised sensitivity analysis

	Impact on operating profit/ Net assets attributable to unitholders			
	Price risk		Interest rate risk	
	-15%	+15%	+75bps	-75bps
	\$	\$	\$	\$
30 June 2013	(237,450)	237,450	30,250	(30,250)

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are carried at fair value. The total credit risk for on-balance sheet items, other than derivatives, is therefore limited to the amount carried on the Statement of Financial Position.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

In relation to equity financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, or where applicable ensuring that transactions are undertaken with a large number of counterparties.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

The Fund uses Merrill Lynch International as its prime broker. Merrill Lynch International has a rating of A by Standard & Poors at 30 June 2013.

3 Financial risk management (continued)

(c) Credit risk (continued)

The Fund also manages its exposure to credit risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio, net of securities sold short.

Sector	30 June 2013 Fund's equity portfolio (%)
Information technology	5.4
Financial services	44.0
Energy	6.3
Consumer staples	8.8
Industrials	6.1
Consumer discretionary	24.7
Materials	(5.4)
Telecommunications services	10.1
Total	100.0

(i) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(ii) Cash and cash equivalents

In accordance with the Fund's policy, the investment manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iii) Other

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to monthly cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

At all times, the Investment Manager aims to maintain a predominantly liquid portfolio, although liquidity is not guaranteed.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

The table below analyses Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

30 June 2013

	Less than 1 month \$	1-6 months \$	6-12 months \$	1-2 years \$	On call \$
Payables	647,620	-	-	-	-
Due to brokers - payable for securities purchased	1,003,992	-	-	-	-
Financial liabilities at fair value through profit or loss	-	446,494	-	-	-
Net assets attributable to unitholders	4,048,885	-	-	-	-
Contractual cash flows	5,700,497	446,494	-	-	-

Financial instruments at fair value through profit or loss where there are no contractual cash flows are disclosed based on the financial instruments' fair value at 30 June and their estimated maturity at this date.

For the year ended 30 June 2013, the Fund did not include financial assets and financial liabilities that were determined using valuation techniques. The fair values of the Fund's financial assets and liabilities for the year then ended were determined directly by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services.

(e) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3 Financial risk management (continued)

(e) Fair value estimation (continued)

(ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(f) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2013.

30 June 2013

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets designated at fair value through profit or loss:				
Equity securities	2,029,492	-	-	2,029,492
Total	2,029,492	-	-	2,029,492
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	446,494	-	-	446,494
Total	446,494	-	-	446,494

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

(i) Classification of financial assets and financial liabilities (continued)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The Fund does not hold any level 2 assets or liabilities.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded or not at all. The Fund does not hold any level 3 assets or liabilities.

(ii) Transfers between levels

There have been no transfers between levels in the fair value hierarchy as at 30 June 2013.

(iii) Movement in level 3 instruments

There were no investments classified as level 3 within the Fund as at 30 June 2013 and 30 June 2012.

4 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Fund:

	For the 4 month period ended 30 June 2013 \$
Nexia Melbourne	
<i>Audit and other assurance services</i>	
Audit of financial statements	7,000
Audit of compliance plan	2,000
Total remuneration of audit and other assurance services	<u>9,000</u>
<i>Taxation services</i>	
Tax compliance services	3,500
Total remuneration for taxation services	<u>3,500</u>
<i>Other services</i>	
Total remuneration of Nexia Melbourne	<u>12,500</u>

The remuneration to auditors is paid directly by the Responsible Entity.

5 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	30 June 2013 \$
Financial assets	
Net gains/(losses) on financial assets held for trading	-
Net gains/(losses) on financial assets designated as at fair value through profit or loss	<u>(69,537)</u>
Net gains/(losses) on financial assets held at fair value through profit or loss	<u>(69,537)</u>
 Net realised losses on financial assets at fair value through profit or loss	 <u>(156,301)</u>
Net unrealised gains on financial assets held at fair value through profit or loss	<u>86,764</u>
Net gains/(losses) on financial assets held at fair value through profit or loss	<u>(69,537)</u>
 Financial liabilities	
Net gains/(losses) on financial liabilities held for trading	-
Net gains/(losses) on financial liabilities designated as at fair value through profit or loss	<u>80,622</u>
Total net gains/(losses) on financial liabilities held at fair value through profit or loss	<u>80,622</u>
 Net realised gains/(losses) on financial liabilities at fair value through profit or loss	 <u>80,622</u>
Net unrealised gains/(losses) on financial liabilities held at fair value through profit or loss	<u>-</u>
Net gains/(losses) on financial liabilities held at fair value through profit or loss	<u>80,622</u>
 Total net gains/(losses) on financial instruments held at fair value through profit or loss	 <u>11,085</u>

Paragon Fund
Notes to the Financial Statements
30 June 2013
(continued)

6 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the period were as follows:

Series 1

	For the 4 month period ended 30 June 2013 Number	For the 4 month period ended 30 June 2013 \$
Applications	2,255,000	2,255,000
Increase in net assets attributable to unitholders	-	22,265
Closing balance	<u>2,255,000</u>	<u>2,277,265</u>

Series 2

	For the 4 month period ended 30 June 2013 Number	For the 4 month period ended 30 June 2013 \$
Applications	957,835	970,000
Decrease in net assets attributable to unitholders	-	(5,364)
Closing balance	<u>957,835</u>	<u>964,636</u>

Series 3

	For the 4 month period ended 30 June 2013 Number	For the 4 month period ended 30 June 2013 \$
Applications	708,521	719,786
Decrease in net assets attributable to unitholders	-	(6,762)
Closing balance	<u>708,521</u>	<u>713,024</u>

Series 4

	For the 4 month period ended 30 June 2013 Number	For the 4 month period ended 30 June 2013 \$
Applications	93,369	92,753
Increase in net assets attributable to unitholders	-	1,207
Closing balance	<u>93,369</u>	<u>93,960</u>

	30 June 2013 \$
Total net assets attributable to unitholders	<u>4,048,885</u>
	<u>4,048,885</u>

6 Net assets attributable to unitholders (continued)

As stipulated in the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets in the Fund.

Each series of units within the same class has the same rights as all other units within that class, except for different performance fees. In order to ensure that unitholders bear the performance fee according to the actual performance of their units, having regard to the different dates and prices at which such units were acquired, a new series of units is issued on each unit pricing date being every month end. As soon as practicable after a performance fee is payable, all units in all series with a performance fee payable will normally be consolidated into a single series.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a monthly basis as the Fund is subject to monthly applications and redemptions at the discretion of unitholders.

Monthly applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Investment Manager. Under the terms of the Fund Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unitholders.

7 Distributions to unitholders

There were no distributions declared for the period.

8 Cash and cash equivalents

	30 June 2013
	\$
Cash at bank	4,033,505
	<u>4,033,505</u>

9 Receivables

	30 June 2013
	\$
Applications receivable	70,000
Dividends and distributions receivable	11,331
Interest receivable	327
GST receivable	2,336
	<u>83,994</u>

Paragon Fund
Notes to the Financial Statements
30 June 2013
(continued)

10 Financial assets held at fair value through profit or loss

	30 June 2013 Fair value \$
Designated at fair value through profit or loss	
Equity securities	<u>2,029,492</u>
Total designated at fair value through profit or loss	<u>2,029,492</u>
 Total financial assets held at fair value through profit or loss	 <u>2,029,492</u>
 Comprising:	
Equity securities	
Australian listed equity securities	<u>2,029,492</u>
Total equity securities	<u>2,029,492</u>

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3: Financial risk management.

11 Payables

	30 June 2013 \$
Management fees payable	5,365
Performance fees payable	359
Monies not allocated to units	637,875
Other payables	<u>4,021</u>
	<u>647,620</u>

12 Due to brokers - payable for securities purchased

	30 June 2013 \$
Due to brokers - payable for securities purchased	<u>1,003,992</u>
	<u>1,003,992</u>

13 Financial liabilities held at fair value through profit or loss

	30 June 2013 Fair value \$
Held for trading	
Total held for trading	-
Designated at fair value through profit or loss	
Listed equity securities sold short	446,494
Total designated at fair value through profit or loss	446,494
Total financial liabilities held at fair value through profit or loss	446,494
Comprising:	
Listed equity securities sold short	
Australian equity securities	446,494
Total listed equity securities sold short	446,494

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in Note 3: Financial risk management.

14 Related party transactions

Responsible Entity

The Responsible Entity of Paragon Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800). Accordingly, transactions with entities related to Paragon Funds Management Ltd are disclosed below.

The Responsible Entity has contracted services to White Outsourcing Pty Limited to act as Administrator and Merrill Lynch International to act as Prime Broker for the Fund. The Responsible Entity acts as Investment Manager.

Key management personnel

(a) Directors

Key management personnel include persons who were Directors of Paragon Funds Management Ltd at any time during the financial period or since the end of the period and up to the date of this report as follows:

Mr John Deniz (appointed 25 July 2012)
Mr Nick Reddaway (appointed 25 July 2012)
Ms Hillier Deniz (appointed 25 July 2012)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial period.

Key management personnel unitholdings

At 30 June 2013, no key management personnel held units in the Fund.

14 Related party transactions (continued)

Key management personnel compensation

Key management personnel are paid by Paragon Funds Management Ltd. Payments made from the Fund to Paragon Funds Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Fund

From time to time, Paragon Funds Management Ltd or its director-related entities may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interests existing at period end.

Responsible Entity's/Manager's fees and other transactions

Under the terms of the Product Disclosure Statement, the Investment Manager is entitled to receive management fees of up to 1.5% per annum (inclusive of GST net of RITC), calculated by reference to the monthly net assets value of the Fund and payable monthly by the Fund.

In addition, the investment manager is entitled to a performance fee calculated at the end of each month, monthly in arrears and paid at the end of each half year period or part year period ending 30 June and 31 December. The performance fee is calculated as 20% (inclusive of GST net of RITC) of the Fund's out-performance of the benchmark return subject to a 5% hurdle rate and a high-watermark. At 30 June 2013, a performance fee of \$335 (inclusive of GST net of RITC) was recorded in the Fund.

Fees are on a GST-inclusive basis net of any input tax credits available (including RITC's).

	For the 4 month period ended 30 June 2013
	\$
Management fees for the year paid by the Fund to the Investment Manager	16,904
Performance fees for the year paid by the Fund to the Investment Manager	335
Aggregate amounts payable to the Investment Manager at the end of the reporting period	5,724

14 Related party transactions (continued)

Related party unitholdings

Parties related to the Fund (including Paragon Funds Management Ltd, its related parties and other schemes managed by Paragon Funds Management Ltd), held units in the Fund as follows:

2013

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	No. of units acquired (Units)
Deniz Pty Ltd ATF The Deniz Family Trust	-	463,746	468,061	11.56	463,746
M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund	-	217,241	218,783	5.40	217,241
John & Prudence Deniz ATF Deniz Superannuation Fund	-	179,476	181,185	4.47	179,476
Nick Reddaway & Catherine Doggett ATF Reddaway Family Superannuation Fund	-	205,000	207,030	5.11	205,000
Reddaway Investment Pty Ltd ATF The Reddaway Family Trust	-	270,000	272,673	6.73	270,000
	-	1,335,463	1,347,732	33.27	1,335,463

Investments

The Fund did not hold any investments in Paragon Funds Management Ltd or its related parties during the period.

15 Reconciliation of profit/(loss) to net cash outflow from operating activities

(a) Reconciliation of profit/(loss) to net cash outflow from operating activities

	30 June 2013 \$
Profit/(loss) for the year	-
Increase in net assets attributable to unitholders	11,346
Proceeds from sale of financial instruments held at fair value through profit or loss	2,689,661
Purchase of financial instruments held at fair value through profit or loss	(3,257,582)
Net gains/(losses) on financial instruments held at fair value through profit or loss	(11,085)
Net change in receivables and other assets	(12,144)
Net change in payables and other liabilities	7,895
Net cash outflow from operating activities	(571,909)

(b) Non-cash financing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

-
-

**15 Reconciliation of profit/(loss) to net cash outflow from operating activities
(continued)**

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

16 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2013 or on the results and cash flows of the Fund for the period ended on that date.

17 Contingent assets and liabilities and commitments

The Fund's set up costs incurred by Paragon Funds Management Ltd are entitled to be reimbursed out of the Fund. Any reimbursement is contingent upon the subscription of the fund under management reaching \$20 million, as per the Product Disclosure Statement. As this had not been reached at period end, a contingent liability exists for payment should the benchmark be achieved at a later date.

The set up cost payable, contingent upon the \$20 million subscription being reached, as at the end of the period, is \$64,948.

Directors' Declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2013 and of its performance for the financial period ended on that date, and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.



Mr John Deniz
Director

Melbourne, VIC
25 September 2013

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF PARAGON FUND

Report on the Financial Report

We have audited the accompanying financial report of Paragon Fund (the "Scheme"), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Paragon Funds Management Ltd (the "Responsible Entity") 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 is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 Funds Management Ltd, would be in the same terms if provided to the directors as at the date of this auditor's report.

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Independent member of Nexia International



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Auditor's Opinion

In our opinion:

- a. the financial report of Paragon Fund is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Scheme's financial position as at 30 June 2012 and of its performance for the period ended on that date; and
 - ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.


NEXIA MELBOURNE
ABN 16 847 721 257


GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

25 September 2013