ParagonCare

Annual Report 2022

YOUR PARTNER IN HEALTHCARE DELIVERY

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A YEAR WITH GOOD UNDERLYING EARNINGS GROWTH AND THE INTEGRATION OF QUANTUM.

BUSINESS SNAPSHOT

Strong foundation for growth

Paragon Care represents an extremely attractive set of healthcare businesses which now have a strong foundation for growth over the next 3-5 years.

Building a $100m EBITDA business

Our ambition is to build a $100m EBITDA business over that timeframe through a combination of organic growth and more targeted M&A activity.

Refining the strategy

An initial review of strategy has been undertaken which has clarified our longer term goals and refined organisational structure to better support the business. This growth will be further underpinned by a strategic review by pillar (currently underway) and a renewed focus on project planning and execution.

Refocus on organic growth

FY22 was an important year for Paragon Care which included a refocus on organic growth and the successful integration of Quantum which establishes a footprint across Asia (now rebranded "Paragon Care Asia").

Acquisition of SMS expands our presence in Diagnostics

The acquisition of SMS (announced 24/08/2022) is a highly complementary business and immediately earnings accretive. A strong balance sheet remains post transaction.

ENABLEMENT

UPDATED BUSINESS STRUCTURE

Devices

Business description

- Ophthalmology & Optometry
- Orthopaedics
- Pain Management
- Surgical Procedure Packs
- Infection Prevention

Capital & Consumables

Business description

- Now has a broad presence across Australia/ New Zealand/ Asia (via Quantum Healthcare)
- Medical
- Surgical (mainly NZ)
- Veterinary (mainly Australia)

Diagnostic & Scientific

Business description

- Blood Bank Diagnostics Manufacturer
- Clinical Pathology Diagnostics Distribution
- Scientific and R&D Laboratory Equipment Distribution

Service & Technology

Business description

- Service Support and Technology Management offering from biomedical devices to high end capital equipment
- Now includes the ANZ Quantum Healthcare business merged with PGC Service & Technology and Total Comms
- Represents the most comprehensive offer in the Asian market in terms of breadth of product support and geographic coverage

CORPORATE DIRECTORY

For the year ended 30 June 2022 (FY22)

Directors	Shane Tanner - Chairman Mark Hooper Geoffrey Sam OAM Brent Stewart Mark Simari John Walstab Alan McCarthy
Company Secretary	Melanie Leydin
Registered Office	Level 4, 96-100 Albert Road South Melbourne VIC 3205 Telephone: 1300 369 559 +61 3 8833 7800 Facsimile: +61 3 8833 7890
Principal Place of Business	Waterman Business Centres Suite 46, 44 Lakeview Drive Scoresby VIC 3179
Share Register	Link Market Services Limited Level 13, Tower 4, 727 Collins Street Melbourne VIC 3000 Telephone: 1300 554 474 Facsimile: (02) 9287 303 Website: www.linkmarketservices.com.au
Auditor	RSM Australia Partners Level 21, 55 Collins Street Melbourne VIC 3000 Website: www.rsm.global/australia/
Solicitors	SOHO Lawyers Level 5, 124 Exhibition Street Melbourne VIC 3000
Bankers	National Australia Bank
Stock Exchange Listing	Paragon Care Limited shares are listed on the Australian Securities Exchange (ASX code: PGC)
Website	paragoncare.com.au
Corporate Governance Statement	The directors and management are committed to conducting the business of Paragon Care Limited in an ethical manner and in accordance with the highest standards of corporate governance. Paragon Care Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations. The Company's FY22 Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report, can be found at: paragoncare.com.au/corporate-governance/

DIRECTORS' REPORT

For the year ended 30 June 2022 (FY22)

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Paragon Care Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022 ('30 June 2022', '2022' or 'FY22'). Comparatives disclosed are for the year ended 30 June 2021 ('30 June 2021, '2021' or 'FY21').

Directors

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

Shane Tanner	Non-Executive Chairman
Mark Hooper	Chief Executive Officer and Group Managing Director (appointed 4 April 2022)
Geoffrey Sam	OAM Non-Executive Director
Brent Stewart	Non-Executive Director
Mark Simari	Non-Executive Director
John Walstab	Executive Director (appointed 16 February 2022)
Alan McCarthy	Non-Executive Director (appointed 16 February 2022)
Xinzhou Paul Li	Former Non-Executive Director (resigned 2 September 2021)

Principal Activities

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

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

Dividends

Dividends paid during the financial year were as follows:

	FY22 $'000	FY21 $'000
Final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share	3,379	-
Interim dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share	3,794	-
	7,173	**-**

On 1 October 2021 a fully franked final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share was paid which amounted to $3,379,000 million in total. The dividend was funded via a fully underwritten Dividend Reinvestment Scheme offering in which 13,515,407 shares were issued. The tax rate for franking credits was 30%.

On 26 April 2022 a fully franked interim dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share was paid which amounted to $3,794,000 in total. The dividend was funded via a fully underwritten Dividend Reinvestment Scheme offering in which 10,365,163 shares were issued. The tax rate for franking credits was 30%.

Dividend declared

In keeping with Directors confidence in Paragon Care, the directors have declared the payment of a fully franked final dividend of 0.6 cents per fully paid ordinary share to be paid on 4 October 2022 in respect of the financial year ended 30 June 2022. The dividend will be paid to all shareholders on the register of members as at the Record Date of 13 September 2022. This dividend has not been included as a liability in these financial statements.

Dividend reinvestment plan

Paragon Care has suspended the operation of its Dividend Reinvestment Plan ('DRP') until further notice. For clarity, the DRP will not apply to the FY22 full year dividend.

DIRECTORS' REPORT

For the year ended 30 June 2022

Review of Operations

The profit for the Group after providing for income tax amounted to $7,144,000 (30 June 2021: $8,279,000).

EBITDA ('earnings before interest, taxation, depreciation and amortisation') is a financial measure not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-cash items, interest revenue, finance costs and tax expenses. The following table summarises key reconciling items between statutory profit after tax and EBITDA. The directors consider EBITDA to reflect the core earnings of the Group.

	FY22 $'000	FY21 $'000	Change from FY21 %
Revenue	**247,912**	**235,840**	**5%**
Cost of sales	(145,080)	(145,527)	-
Gross margin	**102,832**	**90,313**	**14%**
Gross margin%	41.5%	38.3%	
Other income	2,930	1,508	
Operating expenses	(75,526)	(66,731)	
Normalised earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA')	**30,236**	**25,090**	**21%**
Abnormal income/(expenses)*	(5,459)	1,453	
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	24,777	26,543	
Depreciation and amorisation	(7,978)	(6,200)	
Earnings before interest and tax	16,799	20,343	
Interest expense	(6,111)	(8,012)	
Profit before tax	10,688	12,331	
Tax expense	(3,544)	(4,052)	
Profit after tax attributable to owners	**7,144**	**8,279**	

* Underlying results exclude Quantum transaction costs, fair value gain on interest rate swaps, inventory write-off and sign-on bonus.

Key highlights from the results include:

- Underlying EBITDA up 21% to $30.2m: FY22 results include a five-month contribution from Quantum Healthcare acquired in February 2022.
- Increase in gross profit margins to 41%: Driven by higher margin sales mix and improved foreign exchange and the inclusion of 5 months of Quantum results.
- Strengthened balance sheet: Net debt down by 27% to $50.1m with net debt to EBITDA below 2x as at 30 June 2022. It is expected that net debt will increase slightly to around $55-60 million by June 2023.

FY22 Financial Results -Overview

	FY22	FY21	Δ
Revenue	$247.9m	$235.8m	↑ 5%
Reported EBITDA	$24.8m	$26.5m	↓ 6%
Underlying EBITDA*	$30.2m	$25.1m	↑ 21%
Reported NPAT	$7.1m	$8.3m	↓ 14%
Underlying NPAT*	$11.0m	$7.3m	↑ 51%
Net debt	$50.1m	$69.1m	↓ 27%
Net debt to EBITDA	1.66 times	2.76 times	-
DPS	1.2cps	1cps	↑ 20%

* Underlying results exclude Quantum transaction costs, fair value gain on interest rate swaps, inventory write-off and sign-on bonus.

DIRECTORS' REPORT

For the year ended 30 June 2022

FY22 Financial Results -Commentary

The business has performed well over the past year, with good underlying earnings growth and the integration of Quantum on track.

We have undertaken a review of strategy to clarify our longer-term goals and refine our organisational structure, with a renewed focus on project planning and execution across the business.

Our strengthened balance sheet provides flexibility to consider M&A where appropriate, however our focus remains on generating sustainable organic growth over time.

Paragon Care delivered a solid underlying result in FY22, against the backdrop of a challenging year that continued to be impacted by COVID-19. Revenue in FY22 was up 5% to $247.9m, and gross profit was up 14% to $102.8m, with gross profit margins of 41%, up from 38% in FY21, reflecting a higher margin sales mix.

The Reported results in FY22 and FY21 have been adjusted to exclude a number of one-off items including merger costs from the Quantum transaction cost.

Underlying EBITDA increased by 21% to $30.2m, mainly reflecting the five-month contribution from Quantum. The integration activities are on track and the business is performing in line with expectations.

Underlying NPAT increased by 51% to $11m and underlying EPS increased by 7% to 2.30cps. Operating cash flow in FY22 normalised to $19.0m, following an unusually strong net operating cash flow of $27.5m in FY21. Net debt decreased significantly in FY22 to $50.1m, due to the paydown of debt as well as net cash acquired as part of the Quantum merger.

Significant changes in the state of affairs

Scheme Implementation Deed

During the year the Group entered into a scheme implementation deed to merge with Quantum Healthcare Limited ('Quantum') by way of a Scheme of Arrangement. The details of the scheme and anticipated impact can be found in the Scheme Booklet release on the ASX announcements platform on 21 December 2021. On 1 February 2022 the Supreme Court of New South Wales made orders approving the Scheme which came into effect on 2 February 2022. On 16 February 2022, Quantum shareholders were issued in total with 274,178,624 Paragon Care Limited ordinary shares for 100% of the issued capital of Quantum.

Leases

As part of its ongoing warehouse rationalisation activities, Paragon Care has entered into to an arrangement on 26 November 2021 for lease of office spaces and warehouse for a period of fifteen years with an objective to consolidate all of its Victorian operations over the next twelve to eighteen months. The lease commenced in April 2022 with rental commencing after a sixmonth rent-free period in October 2022. The lease arrangement also covers a works incentive of up to $14 million towards cost of fit-outs and other improvements.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 24 August 2022, Paragon entered into an agreement with the owners of Specialist Medical Supplies Pty Ltd ('SMS') to acquire the SMS business for a consideration $15.5 million, wherein Paragon will acquire 100% of the ordinary shares of SMS from the vendors. The transaction will be funded by 20% scrip and 80% cash consideration and will complete on 31 August 2022. The cash portion of the transaction will be funded from existing facilities. The vendors will be entitled to an earnout payment based on 1.5 times any growth in EBITDA in the first 12 months.

The above transaction has been assessed to be a business combination under AASB 3 'Business Combinations' wherein Paragon Care is the acquirer and SMS is the acquiree. The effective date of the acquisition is 1 September 2022.

SMS is the leading supplier in Australia of biopsy and skin lesion scalpels and other related products as well as a urethral bulking agent used in the treatment of female stress urinary incontinence. Operating since 1993, SMS has headquarters and a distribution centre located at Macquarie Park, NSW and supplies the pathology market, local specialist distributors and hospitals, predominantly in NSW and Queensland.

Paragon Care and SMS are highly complementary businesses. The merged entity will have an opportunity to cross-sell the combined product portfolio into the higher growth Asian markets and attract new suppliers over time based on its larger distribution footprint and commitment to high levels of corporate governance in Asian markets.

The initial accounting for the business combination is incomplete at the time the annual financial report was authorised for issue. Accordingly, disclosures relating to fair value of assets acquired and liabilities assumed and the resultant goodwill have not been made.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

DIRECTORS' REPORT

For the year ended 30 June 2022

Information on directors

Name	**Shane Tanner**
Title	Non-Executive Chairman
Qualifications	FCPA, ACIS, MAICD
Experience and expertise	Shane was one of the Co-Founders of Paragon Care Limited and has considerable experience at both senior executive and board level, bringing more than 25 years' experience in healthcare and strategy. Shane has orchestrated and been responsible for numerous small and large-scale acquisitions. He has also helped to establish and guide a number of significant businesses. Previously, Shane was CEO of Symbion Health, one of Australia's largest diagnostic businesses and Chairman of Vision Eye Institute.
Other current directorships	None
Former directorships (last 3 years):	Funtastic Limited, Rhythm Biosciences Limited, Cronos Australia Limited, Victory Offices Limited
Special responsibilities	Member of Nomination and Remuneration Committee and Member of Investment Review Committee
Interests in shares	1,219,726 Fully Paid Ordinary Shares at 30 June 2022 (held indirectly)
Interest in rights	None

Name	**Mark Hooper**
Title	Chief Executive Officer and Group Managing Director (appointed 4 April 2022)
Qualifications	BBus (Acc), CPA, FFTP, MAICD
Experience and expertise	Mark commenced as Group CEO and Managing Director of ParagonCare (PCG) in April 2022. Mark brings substantial industry and management experience to PCG following his 11-year tenure as CEO and Managing Director of Sigma Healthcare Limited (ASX:SIG). At Sigma Mark led the business through divestments, acquisitions, internal transformation and a renewal of its national distribution centre network. Prior to Sigma, Mark held various executive roles at ASX-listed organisations including PaperlinX, Symbion Health and Ashton Mining.
Other current directorships	None
Former directorships (last 3 years):	Sigma Healthcare Limited
Special responsibilities	None
Interests in shares	1,500,000 Fully Paid Ordinary Shares at 30 June 2022 (held directly)
Interest in rights	None

Name	**Geoffrey Sam OAM**
Title	Non-Executive Director
Qualifications	BCom, M.Hospital Administration, M.Economics and Social Studies, FAICD
Experience and expertise	Geoffrey has held numerous successful ASX listed board positions including Chairman of Money 3, Director of Hutchison's Childcare Services and Managing Director of Nova Health. Prior to his appointments to ASX listed companies, Geoffrey undertook numerous Chief Executive positions at Adelaide based hospitals. He is currently the Co-Founder and Director of HealtheCare Australia Pty Ltd, a privately owned health care company comprising a portfolio of 35 hospitals and a community nursing and rehabilitation business.
Other current directorships	EarlyPay Limited (ASX: EPY) formerly known as CML Group Limited (ASX: CGR)
Former directorships (last 3 years)	None
Special responsibilities	Chairman of Investment Review Committee and Member of Audit and Risk Committee
Interests in shares	2,200,639 Fully Paid Ordinary Shares at 30 June 2022 (held indirectly)
Interest in rights	None

DIRECTORS' REPORT

For the year ended 30 June 2022

Information on directors *(continued)*

Name	**Brent Stewart**
Title	Non-Executive Director
Qualifications	B Sc, B Psych, FAICD
Experience and expertise	Brent is an experienced company executive and director having occupied numerous senior executive and board roles over the past 25 years. He established and grew a successful company in Australia and New Zealand (Market Equity Pty Ltd) before selling to a large multinational group (Aegis PLC). Brent has a long association with various segments of the healthcare sector in Australia and internationally. Currently, Brent occupies Non-Executive roles at HBF Health Ltd, Etherington Inc and Argonaut Ltd.
Other current directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Chairman of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares	3,431,686 Fully Paid Ordinary Shares at 30 June 2022 (held indirectly)
Interest in rights	None

Name	**Mark Simari**
Title	Non-Executive Director
Qualifications	Bachelor of Business (Accounting)
Experience and expertise	Mark is an experienced and accomplished professional in the health industry and has over 12 years' Board experience in a diverse range of organisations, including not-forprofits. Mark was the former Chief Executive Officer and Managing Director and Co-Founder of Paragon Care during his tenure (between 2008 and 2018). He was instrumental in Paragon Care becoming one of the largest independent healthcare suppliers in the Australian and New Zealand market, creating a healthcare platform spanning across capital equipment, consumables, devices and service and maintenance. Mark has also held various directorship positions in other companies such as Tali Digital Limited, Social Investment Australia Limited, Sage Capital Group Pty Ltd, InterPrac Financial Planning Pty Ltd and DKN Financial Group. Mark is presently the Chairman of Unisono Pty Limited and Akita Consulting. He also holds advisory roles with Fruitlink Pty Ltd..
Other current directorships	CARETEQ Limited (ASX: CTQ)
Former directorships (last 3 years)	Tali Digital Ltd
Special responsibilities	Chairman of Audit and Risk Committee, Member of Nomination and Remuneration Committee and Member of Investment Review Committee
Interests in shares	413,911 Fully Paid Ordinary Shares at 30 June 2022 (held indirectly)
Interest in rights	None

Name	**John Walstab**
Title	Executive Director and Executive General Manager Paragon Care Asia (appointed 16 February 2022)
Experience and expertise	John Walstab, Managing Director of Quantum Health Group Limited (ASX:QTM) (Quantum) has led a strong team to successfully build Quantum's medical equipment business across the Asia Pacific region. Post-merger, Quantum will form the core platform for Paragon Care's growth in Asia. Founder of Quantum Healthcare in 1998 (formerly InSight Oceania), John has over 38 years in experience in medical equipment distribution across Australia with a focus on leading-edge healthcare technologies in Asia. Prior roles include Managing Director of Advanced Technology Laboratories (Phils Medical Systems ANZ) and Business Manager for Medtel Australia. John is a member of the Australian Institute of Company Directors and sits on various Boards of Private Hospitals and Healthcare businesses.
Other current directorships	None
Former directorships (last 3 years)	None
Special responsibilities	None
Interests in shares	125,075,109 Fully Paid Ordinary Shares at 30 June 2022 (125,074,672 held directly, 437 held indirectly)
Interest in rights	None

DIRECTORS' REPORT

For the year ended 30 June 2022

Information on directors *(continued)*

Name	**Alan McCarthy**
Title	Non-Executive Director (appointed 16 February 2022)
Qualifications	B Bus (Accounting.), MCom in Marketing and Organisational Behavior, CPA.
Experience and expertise	Experience spans public health and private health services across Asia Pacific for more than 32 years, including CEO at Alpenglow Australia and SRG NZ, MD of Philips ANZ, Vice-President Asia Pacific at CareFusion, Country Manager ANZ at Cardinal Health and GM of Diagnostic Imaging at Mayne Health/Health Care of Australia. Currently Non Executive Director of Q Scan and RHC Group Ltd (Pacific Radiology, Auckland Radiology and Bay Radiology. As well as CEO AdvaHealth Solutions Sg.
Other current directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Member of the Investment Committee
Interests in shares	None
Interest in rights	None

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

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

Company Secretary

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

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2022, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Management Committee		Investment Review Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Shane Tanner	11	11	3	3	-	-	1	1
Mark Hooper	3	3	-	-	-	-	-	-
Geoffrey Sam OAM	11	11	-	-	3	3	1	1
Brent Stewart	11	11	3	3	3	3	-	-
Mark Simari	11	11	3	3	3	3	1	1
John Walstab	4	4	-	-	-	-	-	-
Alan McCarthy	3	4	-	-	-	-	-	-
Xinzhou Paul Li	-	2	-	-	-	-	-	-

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

DIRECTORS' REPORT

For the year ended 30 June 2022

Remuneration Report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

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

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

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

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

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

Non-executive directors' remuneration

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

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

Executive remuneration

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

The executive remuneration and reward framework has four components::

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

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

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

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

Consolidated entity performance and link to remuneration

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

In considering non-executive director and executive remuneration, the directors take into consideration the Company's share performance and shareholder wealth creation. During the financial year the Company's share price traded between a low of 25.5 cents and a high of 49.0 cents. As at 30 June 2022 the Company's share price (ASX: PGC) was 28.0 cents per share.

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

DIRECTORS' REPORT

For the year ended 30 June 2022

Employee Incentive Plan

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

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

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

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

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

Performance rights

Vesting conditions and important dates

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

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

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

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

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

The first vesting date of performance rights issued on 22 February 2021 is 30 June 2021 and will lapse on 30 September 2023 if not vested and exercised.

The vesting conditions for performance rights granted on 28 September 2021 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price of 45c being achieved in the financial year 2022 calculated on a 14-day VWAP;
- Tranche 2: One third to vest subject to continuous employment and a minimum share price of 55c being achieved in the financial year 2023 calculated on a 14-day VWAP; and
- Tranche 3: One third to vest subject to continuous employment and a minimum share price of 65c being achieved in the financial year 2024 calculated on a 14-day VWAP.

The first vesting date of performance rights issued on 28 September 2021 is 30 June 2022 and will lapse on 30 September 2024 if not vested and exercised.

Other conditions

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

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

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

Use of remuneration consultants

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

Voting and comments made at the Company's 18 November 2021 Annual General Meeting ('AGM')

At the 18 November 2021 AGM, 93.39% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

- Shane Tanner - Non-Executive Chairman
- Mark Hooper - Chief Executive Officer and Group Managing Director (appointed 4 April 2022)
- Geoffrey Sam OAM - Non-Executive Director
- Brent Stewart - Non-Executive Director
- Mark Simari - Non-Executive Director
- John Walstab - Executive Director (appointed 16 February 2022)
- Alan McCarthy - Non-Executive Director (appointed 16 February 2022)
- Paul Li - Non-Executive Director (resigned 2 September 2021)

And the following persons:

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

DIRECTORS' REPORT

For the year ended 30 June 2022

Amounts of remuneration

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

FY22	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments		
Name	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity shares	Performance rights	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors								
Shane Tanner	120,000	-	-	-	-	-	-	120,000
Geoffrey Sam OAM	55,357	-	-	5,536	-	-	-	60,893
Brent Stewart	60,000	-	-	-	-	-	-	60,000
Mark Simari	60,000	-	-	-	-	-	-	60,000
Alan McCarthy*	22,233	-	-	-	-	-	-	22,233
Paul Li**	14,095	-	-	1,154	-	-	-	15,249
Non-Executive Directors								
Mark Hooper*	201,309	-	-	5,892	-	593,000	-	800,201
John Walstab*	110,350	-	-	11,035	-	-	-	121,385
Other Key Management Personnel								
Phil Nicholl	509,170	141,750	-	23,568	-	-	62,106	736,594
Stephen Munday	295,014	-	-	28,026	-	-	15,445	338,485
	1,447,528	**141,750**	**-**	**75,211**	**-**	**593,000**	**77,551**	**2,335,040**

* Remuneration is from date of appointment as key management personnel to 30 June 2022.
** Remuneration is from 1 July 2021 to date of resignation as key management personnel.

FY22	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments		
Name	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity shares	Performance rights	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors								
Shane Tanner	117,000	-	-	-	-	-	-	117,000
Geoffrey Sam OAM	53,530	-	-	-	5,085	-	-	58,615
Brent Stewart	58,500	-	-	-	-	-	-	58,500
Mark Simari	58,500	-	-	-	-	-	-	58,500
Paul Li*	24,923	-	-	-	2,368	-	-	27,291
Bruce Bian**	6,955	-	-	-	661	-	-	7,616
Other Key Management Personnel								
Phil Nicholl	492,367	157,500	-	-	21,694	-	11,844	683,405
Stephen Munday	302,992	-	-	-	28,784	-	6,497	338,273
	1,114,767	**157,500**	**-**	**-**	**58,592**	**-**	**18,341**	**1,349,200**

* Remuneration is from date of appointment as key management personnel to 30 June 2021.
** Remuneration is from 1 July 2020 to date of resignation as key management personnel.

DIRECTORS' REPORT

For the year ended 30 June 2022

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

	Fixed remuneration		At risk - STI		At risk - LTI	
	FY11	FY21	FY22	FY21	FY22	FY21
Non-Executive Directors:						
Shane Tanner	100%	100%	-	-	-	-
Geoffrey Sam OAM	100%	100%	-	-	-	-
Brent Stewart	100%	100%	-	-	-	-
Mark Simari	100%	100%	-	-	-	-
Alan McCarthy	100%	-	-	-	-	-
Paul Li	100%	100%	-	-	-	-
Bruce Bian	-	100%	-	-	-	-
Executive Directors:						
Mark Hooper	26%	-	74%	-	-	-
John Walstab	100%	-	-	-	-	-
Other Key Management Personnel:						
Phil Nicholl	73%	75%	19%	23%	8%	2%
Stephen Munday	95%	98%	-	-	5%	2%

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

	Cash bonus paid/payable		Cash bonus forfeited	
	FY22	FY21	FY22	FY21
Executive Directors:				
Mark Hooper	-	-	-	-
John Walstab	-	-	-	-
Other Key Management Personnel:				
Phil Nicholl	100%	100%	-	-
Stephen Munday	-	-	-	-

DIRECTORS' REPORT

For the year ended 30 June 2022

Service agreements

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

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

Name	**Shane Tanner**
Title	Non-Executive Chairman
Term of agreement	No fixed term, no notice period required for termination
Details	Base salary including superannuation $150,000. No termination benefit.
Name	**Mark Hooper**
Title	Chief Executive Officer and Group Managing Director
Term of agreement	No fixed term, notice period of 3 months for employee and 12 months for company
Details	Base salary including superannuation $850,000. 12 months notice payable as termination benefit.
Sign-on equity	a) First tranche on commencement - 1.5million fully paid ordinary shares b) Second tranche conditional upon continued employment with company to 5 April 2023 or if company taken over before that date - 1.5million fully paid ordinary shares STI : 60% of fixed remuneration, subject to continued employment and performance LTI: 60% of fixed remuneration, subject to the EIP rules
Name	**Geoffrey Sam OAM**
Title	Non-Executive Director
Term of agreement	No fixed term, no notice period required for termination
Details	Base salary including superannuation $75,000. No termination benefit.
Name	**Brent Stewart**
Title	Non-Executive Director
Term of agreement	No fixed term, no notice period required for termination
Details	Base salary including superannuation $75,000. No termination benefit.
Name	**Mark Simari**
Title	Non-Executive Director
Term of agreement	No fixed term, no notice period required for termination
Details	Base salary including superannuation $75,000. No termination benefit.
Name	**John Walstab**
Title	Executive Director
Term of agreement	No fixed term
Details	Base salary including superannuation $475,000. No termination benefit.
Name	**Alan McCarthy**
Title	Non-Executive Director
Term of agreement	No fixed term
Details	Base salary including superannuation $75,000. No termination benefit.
Name	**Phil Nicholl**
Title	Chief Executive Officer
Term of agreement	No fixed term
Details	Base salary including superannuation $525,000. No termination benefit.
Name:	**Stephen Munday**
Title:	Chief Financial Officer
Term of agreement:	No fixed term
Details:	Base salary including superannuation $336,000. No termination benefit.

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

DIRECTORS' REPORT

For the year ended 30 June 2022

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2022 are set out below:

Name	Date	Shares	Issue price	$'000
Mark Hooper	7 April 2022	1,500,000	$0.3950	593

Performance rights

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

Grant date	Vesting date* and exercisable date	Expiry date	Fair value per right at grant date
26 April 2019	31 August 2022	30 September 2022	$0.4450
22 February 2021	30 June 2021	30 September 2023	$0.0300
22 February 2021	30 June 2022	30 September 2023	$0.0300
22 February 2021	30 June 2023	30 September 2023	$0.0310
28 September 2021	30 June 2022	30 September 2024	$0.1340
28 September 2021	30 June 2023	30 September 2024	$0.1360
28 September 2021	30 June 2024	30 September 2024	$0.1380
1 July 2022	30 June 2023	30 June 2025	$0.1570
1 July 2022	30 June 2024	30 June 2025	$0.1630
1 July 2022	30 June 2025	30 June 2025	$0.1680

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

Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
Phillip Nicholl	348,012	22 February 2021	30 June 2021	30 September 2023	$0.0300
	348,012	22 February 2021	30 June 2022	30 September 2023	$0.0300
	348,011	22 February 2021	30 June 2023	30 September 2023	$0.0310
	450,368	28 September 2021	30 June 2022	30 September 2024	$0.1340
	450,368	28 September 2021	30 June 2023	30 September 2024	$0.1360
	450,367	28 September 2021	30 June 2024	30 September 2024	$0.1380
	376,537	1 July 2022	30 June 2023	30 June 2025	$0.1570
	376,537	1 July 2022	30 June 2024	30 June 2025	$0.1630
	376,537	1 July 2022	30 June 2025	30 June 2025	$0.1680
Stephen Munday	190,909	22 February 2021	30 June 2021	30 September 2023	$0.0300
	190,909	22 February 2021	30 June 2022	30 September 2023	$0.0300
	190,909	22 February 2021	30 June 2023	30 September 2023	$0.0310
	112,000	28 September 2021	30 June 2022	30 September 2024	$0.1340
	112,000	28 September 2021	30 June 2023	30 September 2024	$0.1360
	112,000	28 September 2021	30 June 2024	30 September 2024	$0.1380
	100,000	1 July 2022	30 June 2023	30 June 2025	$0.1570
	100,000	1 July 2022	30 June 2024	30 June 2025	$0.1630
	100,000	1 July 2022	30 June 2025	30 June 2025	$0.1680

Performance rights granted carry no dividend or voting rights.

DIRECTORS' REPORT

For the year ended 30 June 2022

Details of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2022 are set out below:

Name	Grant date	Vesting date	Number of rights granted	Value of rights granted	Value of rights vested	Number of rights lapsed	Value of rights lapsed
				$	$		$
Phil Nicholl	28 September 2021	30 June 2022	450,368	60,349	-	-	-
	28 September 2021	30 June 2023	450,368	61,250	-	-	-
	28 September 2021	30 June 2024	450,367	62,151	-	-	-
Stephen Munday	28 September 2021	30 June 2022	112,000	15,008	-	-	-
	28 September 2021	30 June 2023	112,000	15,232	-	-	-
	28 September 2021	30 June 2024	112,000	15,456	-	-	-

Additional information

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

	2022	2021	2020	2019	2018
Share price at financial year end (cents per share)	28.00	26.50	19.00	41.50	82.50
Total dividends declared (cents per share)	1.20	1.00	-	1.10	4.20
Basic earnings per share (cents per share)	1.46	2.45	(22.87)	(4.49)	5.40

Additional disclosures relating to key management personnel

Shareholding

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

Ordinary shares	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Shane Tanner	1,000,000	-	219,726	-	1,219,726
Mark Hooper*	-	1,500,000	-	-	1,500,000
Geoffrey Sam OAM	1,964,675	-	235,964	-	2,200,639
Brent Stewart	3,246,334	-	185,352	-	3,431,686
Mark Simari	391,561	-	22,350	-	413,911
John Walstab*	125,075,109	-	-	-	125,075,109
Alan McCarthy*	-	-	-	-	-
Paul Li**	50,418,386	-	-	(50,418,386)	-
Phil Nicholl	1,764,664	-	-	-	1,764,664
Stephen Munday	-	-	-	-	-
	183,860,729	**1,500,000**	**663,392**	**(50,418,386)**	**135,605,735**

* Balance at the start of the year represent interest in holding at date of appointment as a key management personnel.

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

DIRECTORS' REPORT

For the year ended 30 June 2022

Performance rights holding

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

Performance rights over ordinary shares	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Shane Tanner	-	-	-	-	-
Mark Hooper*	-	-	-	-	-
Geoffrey Sam OAM	-	-	-	-	-
Brent Stewart	-	-	-	-	-
Mark Simari	-	-	-	-	-
John Walstab*	-	-	-	-	-
Alan McCarthy*	-	-	-	-	-
Paul Li	-	-	-	-	-
Phil Nicholl	1,044,035	1,351,103	-	-	2,395,138
Stephen Munday	572,727	336,000	-	-	908,727
	1,616,762	**1,687,103**	**-**	**-**	**3,303,865**

* Balance at the start of the year represent interest in holding at date of appointment as a key management personnel.

This concludes the remuneration report, which has been audited.

DIRECTORS' REPORT

For the year ended 30 June 2022

Shares under performance rights

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

Grant date	Expiry date	Number under rights
26 April 2019	30 September 2022	188,810
22 February 2021	30 September 2023	6,725,736
28 September 2021	30 September 2024	4,798,529
1 July 2022	30 June 2025	4,279,611
		15,992,686

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

Shares issued on the exercise of performance rights

There were no ordinary shares of Paragon Care Limited issued on the exercise of performance rights during the year ended 30 June 2022 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 35 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 35 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

DIRECTORS' REPORT

For the year ended 30 June 2022

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

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

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the directors

Mark Hooper
Group CEO and Managing Director
Paragon Care Limited

24 August 2022
Melbourne

AUDITORS INDEPENDENCE DECLARATION

For the year ended 30 June 2022 (FY22)

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
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F +61 (0) 3 9286 8199

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Paragon Care Limited and its controlled entities for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

RSM AUSTRALIA PARTNERS

M PARAMESWARAN
Partner

Melbourne, Victoria
Dated: 24 August 2022

FINANCIAL STATEMENTS

For the year ended 30 June 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022 (FY22)

	Note	FY22 $'000	FY21 $'000
Revenue			
Sale of goods	5	247,912	235,840
Cost of goods sold		(145,080)	(145,527)
Gross margin		**102,832**	**90,313**
Other income			
Other income	6	2,798	1,490
Interest revenue calculated using the effective interest method		132	18
Expenses			
Employee benefits expense	7	(54,979)	(47,157)
Depreciation and amortisation expense	8	(7,980)	(6,200)
Distribution expenses		(6,940)	(6,331)
Marketing expenses		(1,761)	(908)
Occupancy expenses		(1,744)	(1,398)
Other expenses	9	(10,100)	(10,937)
Finance costs	10	(6,111)	(8,012)
		16,147	**10,878**
Share-based payments expense	46	(850)	(69)
Acquisition costs	41	(3,048)	(4)
Write off of obsolete inventory		(4,604)	-
Fair value gain on derivative liability	24	3,043	1,526
Profit before income tax expense		**10,688**	**12,331**
Income tax expense	11	(3,544)	(4,052)
Profit after income tax expense for the year		**7,144**	**8,279**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		455	1,085
Foreign currency translation		(367)	(196)
Other comprehensive income for the year, net of tax		88	889
Total comprehensive income for the year		**7,232**	**9,168**
Profit for the year is attributable to:			
Non-controlling interest		510	-
Owners of Paragon Care Limited	29	6,634	8,279
		7,144	**8,279**
Total comprehensive income for the year is attributable to:			
Non-controlling interest		510	-
Owners of Paragon Care Limited		6,722	9,168
		7,232	**9,168**

		Cents	Cents
Basic earnings per share	45	1.46	2.45
Diluted earnings per share	45	1.43	2.40

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2022 (FY22)

	Note	FY22 $'000	FY21 $'000
Assets			
Current assets			
Cash and cash equivalents	12	46,203	33,197
Trade and other receivables	13	42,921	26,201
Inventories	14	51,454	51,578
Income tax refund due	11	-	407
Other assets	15	9,196	1,413
Financial derivative asset	16	1,065	416
Total current assets		**150,839**	**113,212**
Non-current assets			
Investment property	17	261	-
Property, plant and equipment	18	10,233	7,464
Right-of-use assets	19	20,266	9,032
Intangible assets	20	244,380	151,374
Deferred tax	11	11,047	10,838
Total non-current assets		**286,187**	**178,708**
Total assets		**437,026**	**291,920**
Liabilities			
Current liabilities			
Trade and other payables	21	28,305	36,100
Borrowings	22	22,759	21,794
Lease liabilities	23	3,450	3,648
Derivative financial instruments	24	-	3,047
Income tax	11	550	-
Employee benefits		6,609	4,901
Vendor conditional payables	25	1,390	-
Other liabilities	26	24,319	12,720
Total current liabilities		**87,382**	**82,210**
Non-current liabilities			
Borrowings	22	73,484	80,471
Lease liabilities	23	31,566	7,098
Employee benefits		816	623
Vendor conditional payables	25	1,443	-
Total non-current liabilities		**107,309**	**88,192**
Total liabilities		**194,691**	**170,402**
Net assets		**242,335**	**121,518**
Equity			
Issued capital	27	228,655	113,952
Reserves	28	7,376	7,566
Retained earnings	29	-	-
Equity attributable to the owners of Paragon Care Limited		**236,031**	**121,518**
Non-controlling interest	30	6,304	-
Total equity		**242,335**	**121,518**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022 (FY22)

	Issued capital $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2020	**202,718**	**(1,671)**	**(88,766)**	-	**112,281**
Profit after income tax expense for the year	-	-	8,279	-	8,279
Other comprehensive income for the year, net of tax	-	889	-	-	889
Total comprehensive income for the year	**-**	**889**	**8,279**	-	**9,168**
Transfer to dividend reserve (note 28)	-	8,279	(8,279)	-	-
Transactions with owners in their capacity as owners:					
Share-based payments (note 46)	-	69	-	-	69
Capital reduction (note 27)	(88,766)	-	88,766	-	-
Balance at 30 June 2021	**113,952**	**7,566**	**-**	-	**121,518**

	Issued capital $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2021	**113,952**	**7,566**	**-**	**-**	**121,518**
Profit after income tax expense for the year	-	-	6,634	510	7,144
Other comprehensive income for the year, net of tax	-	88	-	-	88
Total comprehensive income for the year	**-**	**88**	**6,634**	**510**	**7,232**
Transfer to dividend reserve (note 28)	-	6,634	(6,634)	-	-
Non-controlling interest acquired on business acquisition (note 41)	-	-	-	5,794	5,794
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 27)	114,703	-	-	-	114,703
Share-based payments (note 46)	-	261	-	-	261
Dividends paid (note 31)	-	(7,173)	-	-	(7,173)
Balance at 30 June 2022	**228,655**	**7,376**	**-**	**6,304**	**242,335**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022 (FY22)

	Note	FY22 $'000	FY21 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		288,996	264,516
Payments to suppliers and employees (inclusive of GST)		(263,876)	(232,509)
Government assistance received (JobKeeper subsidy)		-	2,985
Other income		-	1,413
Interest received		8	18
Interest and other finance costs paid		(5,479)	(8,012)
Income taxes refunded /(paid)		(617)	(948)
Net cash from operating activities	44	**19,032**	**27,463**
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	41	11,681	-
Payment for vendor earn out of prior business acquisitions		-	(15,331)
Payments for property, plant and equipment		(3,118)	(3,327)
Payments for intangibles		(1,493)	(1,959)
Payments for security deposits		-	(134)
Proceeds from disposal of property, plant and equipment		-	1,948
Net cash from/(used in) investing activities		**7,070**	**(18,803)**
Cash flows from financing activities			
Share issue transaction costs		(483)	-
Proceeds from/(repayment of) borrowings (net)		(7,919)	3,339
Repayment of lease liabilities		(3,528)	(3,307)
Net cash from/(used in) financing activities		**(11,930)**	**32**
Net increase in cash and cash equivalents		14,172	8,692
Cash and cash equivalents at the beginning of the financial year		33,197	24,505
Effects of exchange rate changes on cash and cash equivalents		(1,166)	-
Cash and cash equivalents at the end of the financial year	12	**46,203**	**33,197**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

NOTE 1. General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 August 2022. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Paragon Care Limited as at 30 June 2022 and the results of all subsidiaries for the year then ended.

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

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

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Operating segments

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

Foreign currency translation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

The Group recognises revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery of equipment or when the acceptance form is signed. The Group considers that the point of satisfaction of the performance obligation is the point of delivering goods or acceptance of equipment.

Service maintenance revenue

Revenue from service maintenance agreements is recognised over time as the services are rendered over the period of service maintenance agreements.

Extended warranty revenue

Equipment is often sold with an extended warranty, which is considered to be a separate performance obligation for the purposes of recognising revenue. In this case, the Group determines the relative stand-alone selling price (price at which an entity would sell the service separately) of the services underlying the performance obligation. Revenue from expected warranty is recognised over time over the period of the extended warranty.

Interest

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

Other revenue

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

Government grants

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

Income tax

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

Inventories

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

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

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

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

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

Interest rate swaps

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

Hedges of a net investment

Hedges of a net investment in a foreign operation include monetary items that are considered part of the net investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity whilst gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Investments and other financial assets

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

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Investments

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

Impairment of financial assets

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

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

Investment properties

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Group. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly to profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers to and from investment properties to property, plant and equipment are determined by a change in use of owneroccupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

Investment properties also include properties under construction for future use as investment properties. These are carried at fair value, or at cost where fair value cannot be reliably determined and the construction is incomplete.

Property, plant and equipment

Land and buildings are initially shown at cost. Land and buildings will be shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

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

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

Land	Not depreciated
Buildings	20 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years
Motor vehicles	3-5 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Right-of-use assets

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

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

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

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

Intangible assets

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

Goodwill

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

Website

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

Customer contracts

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

Software development

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

Research and development ('R&D') projects

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

Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

Lease liabilities

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

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

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

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

Fair value measurement

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 2. Significant accounting policies *(continued)*

Diluted earnings per share

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

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

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

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

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2022. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

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

The amendments are applicable to annual reporting periods beginning on or after 1 January 2022 and early adoption is permitted. This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified. At this time, the application of the amendments is not expected to have a material impact on the Group.

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

Amendments of AASB 7, 101 and 108 provide definition and clarifications on accounting estimates and clarify the concept of materiality in the context of disclosure of accounting policies. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The amendments are not expected to have a material impact on the Group.

AASB 2021-5 Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

This amendment revises the AASB 112 to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations.

Note 3. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

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

Allowance for expected credit losses

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

Provision for impairment of inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

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

Estimation of useful lives of assets

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

Goodwill and other indefinite life intangible assets

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

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

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

Income tax

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

Recovery of deferred tax assets

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

Lease term

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

Derivative financial instruments

Forward foreign exchange contracts, designated as cash flow hedges, are measured at fair value. Reliance is placed on future cash flows and judgement is made on a regular basis, through prospective and retrospective testing, including at the reporting date, that the hedges are still highly effective.

Business combinations

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

Note 4. Operating segments

The Group operates within one operating segment only - Medical Equipment. The Medical Equipment segment supplies durable medical equipment and consumable medical product to hospitals, medical centres and aged care facilities in Australia, New Zealand and Asia. The Group does not have any other reporting segments. This assessment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. Accordingly the information provided in this Annual Report reflects the one operating segment.

Major customers

During the year ended 30 June 2022 there were no major customers generating over 10% of revenue for the Group (30 June 2021: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 4. Operating segments *(continued)*

Geographical information

	Sales to external customers		Geographical non-current assets	
	FY22 $'000	FY21 $'000	FY22 $'000	FY21 $'000
Australia	180,010	187,028	265,791	165,158
New Zealand	45,782	47,481	2,539	2,712
Asia	22,120	1,331	6,773	-
	247,912	**235,840**	**275,103**	**167,870**

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 5. Revenue

Disaggregation of revenue

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

	FY22 $'000	FY21 $'000
Major product lines		
Devices Product Line	79,118	85,847
Diagnostic Product line	29,591	25,864
Capital and Consumables Product Line	110,313	105,175
Services and Technology	28,890	18,954
	247,912	**235,840**
Geographical regions		
Australia	180,010	187,028
New Zealand	45,782	47,481
Asia	22,120	1,331
	247,912	**235,840**
Timing of revenue recognition		
Goods transferred at a point in time	219,022	216,886
Services transferred over time	28,890	18,954
	247,912	**235,840**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 6. Other income

	FY22 $'000	FY21 $'000
Net foreign exchange gain	74	-
Rental Income	673	80
Other income	2,051	1,410
Other income	**2,798**	**1,490**

Note 7. Employee benefits expense

	FY22 $'000	FY21 $'000
Payroll costs	51,498	47,591
Defined contributions superannuation expense	3,481	3,041
JobKeeper subsidy	-	(3,475)
	54,979	**47,157**

JobKeeper subsidy

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

Note 8. Depreciation and amortisation expense

	FY22 $'000	FY21 $'000
Depreciation - Land and buildings	15	-
Depreciation - Leasehold improvements	187	76
Depreciation - Plant and equipment	3,815	2,715
Depreciation - Motor vehicles	27	108
Depreciation - Buildings right-of-use assets	3,387	3,056
Amortisation - Website	20	21
Amortisation - Software development costs	529	224
	7,980	**6,200**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 9. Other expenses

	FY22 $'000	FY21 $'000
Management consulting fees	878	2,355
Professional fees	1,725	1,536
Information technology	3,432	3,239
Travel costs	1,456	1,222
Bad debts and allowance for/(recovery of) expected credit losses	(169)	358
Net loss/(gain) on sale of assets	236	(8)
Net foreign exchange loss	-	149
Other corporate costs	2,542	2,086
	10,100	**10,937**

Note 10. Finance costs

	FY22 $'000	FY21 $'000
Interest and finance charges paid/payable on borrowings	5,150	5,142
Loan facility fees and ancillary costs expensed	550	2,033
Interest and finance charges paid/payable on lease liabilities	411	837
	6,111	**8,012**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 11. Income tax

	FY22 $'000	FY21 $'000
Income tax expense		
Current tax	1,688	612
Deferred tax - origination and reversal of temporary differences	1,932	3,718
Adjustment recognised for prior periods	(76)	(278)
Aggregate income tax expense	**3,544**	**4,052**
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets	1,932	3,718
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	10,688	12,331
Tax at the statutory tax rate of 30%	3,206	3,699
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible costs	855	631
Non-assessable income	(441)	-
	3,620	**4,330**
Adjustment recognised for prior periods	(76)	(278)
Income tax expense	**3,544**	**4,052**

	FY22 $'000	FY21 $'000
Amounts charged directly to equity		
Deferred tax assets	181	478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 11. Income tax *(continued)*

	FY22 $'000	FY21 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	1,225	1,245
Property, plant and equipment	(297)	(17)
Employee benefits	2,428	1,912
Accrued expenses	2,662	1,409
Right of use asset/lease liability	341	355
Derivative liabilities/assets	-	914
Inventories	3,589	3,352
Prepayments	-	555
Borrowing costs	207	81
Trade and other receivables	266	212
Foreign exchange gains/(losses)	(23)	168
Other assets	217	66
Non-deductible capital expenditure	-	724
Transaction costs	751	-
	11,366	**10,976**
Amounts recognised in equity:		
Derivative financial instruments	(319)	(138)
Deferred tax asset	**11,047**	**10,838**
Movements:		
Opening balance	10,838	14,757
Charged to profit or loss	(1,932)	(3,718)
Charged to equity	(181)	(478)
Additions through business combinations (note 41)	2,380	-
Unders/overs	(58)	277
Closing balance	**11,047**	**10,838**

	FY22 $'000	FY21 $'000
Income tax refund due		
Income tax refund due	**-**	**407**

	FY22 $'000	FY21 $'000
Provision for income tax		
Provision for income tax	**550**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 12. Cash and cash equivalents

	FY22 $'000	FY21 $'000
Current assets		
Cash at bank and on hand	**46,203**	**33,197**

Note 13. Trade and other receivables

	FY22 $'000	FY21 $'000
Current assets		
Trade receivables	30,483	26,659
Less: Allowance for expected credit losses	(1,227)	(708)
	29,256	25,951
Other receivables	884	250
Lease incentive receivable	12,781	-
	42,921	**26,201**

Allowance for expected credit losses

The Group has recognised a loss of $93,000 (30 June 2021: $33,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2022. The Group does not believe that the recovery of its trade receivables will be materially impacted by COVID-19. The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, pursuant to the COVID-19 pandemic.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	FY22 %	FY21 %	FY22 $'000	FY21 $'000	FY22 $'000	FY21 $'000
Not overdue	2%	-	28,836	24,004	435	-
0 to 3 months overdue	36%	17%	1,112	2,046	402	354
3 to 6 months overdue	60%	37%	365	406	221	151
Over 6 months overdue	100%	100%	170	203	169	203
			30,483	**26,659**	**1,227**	**708**

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

	FY22 $'000	FY21 $'000
Opening balance	708	940
Additional provisions recognised	93	33
Additions through business combinations	426	-
Written off against provision	-	(265)
Closing balance	**1,227**	**708**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 14. Inventories

	FY22 $'000	FY21 $'000
Current assets		
Raw materials - at cost	1,402	1,414
Finished goods - at cost	57,774	56,787
Stock in transit - at cost	5,188	4,540
Less: Provision for impairment	(12,910)	(11,163)
	51,454	**51,578**

Provision for impairment

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

	FY22 $'000	FY21 $'000
Balance at the start of the financial year	(11,163)	(11,555)
Increase in provision during the year	(587)	(3,175)
Additions through business combinations	(3,673)	-
Written off against provision	2,513	3,567
Balance at the end of the financial year	**(12,910)**	**(11,163)**

Note 15. Other assets

	FY22 $'000	FY21 $'000
Current assets		
Prepayments	7,133	1,279
Security deposits	2,063	134
	9,196	**1,413**

Note 16. Financial derivative asset

	FY22 $'000	FY21 $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	**1,065**	**416**

Refer to note 33 for further information on fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 17. Investment property

	FY22 $'000	FY21 $'000
Non-current assets		
Investment property - Freehold office building, Korea - at cost	261	-
Less: Accumulated depreciation	-	-
	261	**-**

Reconciliation

Reconciliation of the cost at the beginning and end of the current and previous financial year are set out below:

	FY22 $'000	FY21 $'000
Opening cost	-	-
Additions through business combinations (note 41)	261	-
Closing cost	**261**	**-**

The investment property is held for long-term rental yields and is not occupied by the Group.

Note 18. Property, plant and equipment

	FY22 $'000	FY21 $'000
Non-current assets		
Land and buildings - at cost	2,015	-
Less: Accumulated depreciation	(15)	-
	2,000	**-**
Leasehold improvements - at cost	4,076	3,488
Less: Accumulated depreciation	(1,209)	(959)
	2,867	**2,529**
Plant and equipment - at cost	33,085	29,104
Less: Accumulated depreciation	(27,800)	(24,270)
	5,285	**4,834**
Motor vehicles - at cost	1,535	1,174
Less: Accumulated depreciation	(1,454)	(1,073)
	81	**101**
	10,233	**7,464**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 18. Property, plant and equipment *(continued)*

Reconciliations

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

	Land and buildings $'000	Leasehold improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Balance at 1 July 2020	**-**	**2,308**	**4,600**	**276**	**7,184**
Additions	-	297	3,031	-	3,328
Disposals	-	-	(82)	(67)	(149)
Depreciation expense	-	(76)	(2,715)	(108)	(2,899)
Balance at 30 June 2021	**-**	**2,529**	**4,834**	**101**	**7,464**
Additions	-	520	4,365	-	4,885
Additions through business combinations (note 41)	2,015	5	814	10	2,844
Disposals	-	-	(841)	(3)	(844)
Exchange differences	-	-	(72)	-	(72)
Depreciation expense	(15)	(187)	(3,815)	(27)	(4,044)
Balance at 30 June 2022	**2,000**	**2,867**	**5,285**	**81**	**10,233**

Note 19. Right-of-use assets

	FY22 $'000	FY21 $'000
Non-current assets		
Land and buildings - right-of-use	35,862	19,052
Less: Accumulated depreciation	(15,596)	(10,020)
	20,266	**9,032**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 19. Right-of-use assets *(continued)*

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

Reconciliations

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

	Land and buildings right-of-use $'000
Balance at 1 July 2020	**14,265**
Additions	1,127
Reductions due to lease modifications	(3,304)
Depreciation expense	(3,056)
Balance at 30 June 2021	**9,032**
Additions	12,684
Additions through business combinations (note 41)	1,629
Lease modifications and early terminations	308
Depreciation expense	(3,387)
Balance at 30 June 2022	**20,266**

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

- Refer note 10 for details of interest on lease liabilities and other lease payments;
- Refer note 23 for lease liabilities and maturity analysis at 30 June 2022; and
- Refer consolidated statement of cash flows for repayment of lease liabilities.

Note 20. Intangible assets

	FY22 $'000	FY21 $'000
Non-current assets		
Goodwill - at cost	313,715	221,700
Less: Impairment	(72,699)	(72,699)
	241,016	**149,001**
Website - at cost	206	329
Less: Accumulated amortisation	(165)	(145)
	41	**184**
Software development costs - at cost	4,642	2,953
Less: Accumulated amortisation	(1,319)	(790)
	3,323	**2,163**
R&D Projects (under construction) - at cost	212	212
Less: Accumulated amortisation	(212)	(186)
	-	26
	244,380	**151,374**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 20. Intangible assets *(continued)*

Reconciliations

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

	Goodwill $'000	Website $'000	Software development costs $'000	R&D projects (under construction) $'000	Total $'000
Balance at 1 July 2020	**149,001**	**205**	**454**	**-**	**149,660**
Additions	-	-	1,933	26	1,959
Amortisation expense	-	(21)	(224)	-	(245)
Balance at 30 June 2021	**149,001**	**184**	**2,163**	**26**	**151,374**
Additions	-	-	1,608	-	1,608
Additions through business combinations (note 41)	92,015	-	81	-	92,096
Disposals	-	(123)	-	(26)	(149)
Amortisation expense	-	(20)	(529)	-	(549)
Balance at 30 June 2022	**241,016**	**41**	**3,323**	**-**	**244,380**

Impairment testing

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

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

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

Goodwill acquired through business combinations have been allocated to the following CGUs:

	FY22 $'000	FY21 $'000
Paragon Care	149,001	149,001
Quantum Healthcare	92,015	-
	241,016	**149,001**

The recoverable amount of the two CGUs' goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 3-year projection period approved by management and extrapolated for a further 2 years, together with a terminal value. Based on the discounted cash projections, the recoverable amount of the CGUs exceed their carrying amount by $126.6 million (Paragon Care $78.9m; Quantum Healthcare $47.7m) as at 30 June 2022.

Management projections of revenue growth incorporate the growth initiatives during that period (led by the Asia export opportunity for all product categories) with growth in the following two years to June 2027 dropping to 17% and 10% respectively in line with the long-term business growth and overall health market growth rates (and under the planned growth in FY24).

The pre-tax discount rate of 13.80% has been used (12.50% in 2021) for both CGUs reflecting the increased general business risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 20. Intangible assets *(continued)*

Key assumptions used for the discounted cash flow projections:

	Paragon Care %	Quantum Healthcare %
Revenue growth rate during the forecast period (average)	14.00%	15.80%
Pre-tax discount rate	13.80%	13.80%
Terminal growth rate	1.25%	1.25%

Sensitivity

As disclosed in note 3, the directors have made judgements and estimates in respect of impairment testing of goodwill. The calculations for discounted cashflow valuation of the CGUs on value-in-use basis were subject to sensitivity testing.

All things being equal, for Paragon Care, either the revenue growth rate would need to drop from 14% to 4.6% or the pre-tax discount rate would need to increase from 13.8% to 18% for the recoverable amount to equal the carrying amount.

All things being equal, for Quantum Healthcare, either the revenue growth rate would need to drop from 15.8% to 4% or the pre-tax discount rate would need to increase from 13.8% to 18.40% for the recoverable amount to equal the carrying amount.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount. If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in an impairment charge for goodwill.

Note 21. Trade and other payables

	FY22 $'000	FY21 $'000
Current liabilities		
Trade payables	23,556	30,216
Goods and services tax payable	1,272	1,118
Other payables	3,477	4,766
	28,305	**36,100**

Refer to note 32 for further information on financial instruments.

Note 22. Borrowings

	FY22 $'000	FY21 $'000
Current liabilities		
Bank loans	7,000	6,000
Trade finance facility	13,894	15,587
Other loans	1,792	-
Hire purchase	73	207
	22,759	**21,794**
Non-current liabilities		
Bank loans	73,397	80,397
Hire purchase	87	74
	73,484	**80,471**

Refer to note 32 for further information on financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 22. Borrowings *(continued)*

Assets pledged as security

National Australia Bank ('NAB') has a first registered company charge over all assets and undertakings including uncalled capital of the Group as security for the Company's banking arrangements.

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

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

As part of the Quantum acquisition (refer note 41), the Group inherited a $5m facility with HSBC secured by a charge against Quantum Healthcare Limited and its subsidiaries. We are working with NAB and HSBC to combine the two facilities into a single facility to provide multi-currency working capital facilities as and to consolidate our debt funding arrangements.

Financing arrangements

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

	FY22 $'000	FY21 $'000
Total facilities		
Bank loans	80,397	86,575
Trade finance facility	28,500	28,500
Bank guarantees and others	7,800	2,800
Other loans	2,432	-
	119,129	**117,875**
Used at the reporting date		
Bank loans	80,397	86,397
Trade finance facility	13,894	15,587
Bank guarantees and others	3,053	1,309
Other loans	1,792	-
	99,136	**103,293**
Unused at the reporting date		
Bank loans	-	178
Trade finance facility	14,606	12,913
Bank guarantees and others	4,747	1,491
Other loans	640	-
	19,993	**14,582**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 23. Lease liabilities

	FY22 $'000	FY21 $'000
Current liabilities		
Lease liability	**3,450**	**3,648**
Non-current liabilities		
Lease liability	**31,566**	**7,098**

Refer to note 32 for further information on financial instruments.

The maturity analysis for lease liabilities is as follows:

	FY22 $'000	FY21 $'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	5,132	4,122
One to five years	13,115	5,824
More than five years	25,803	1,380
Total undiscounted lease liabilities at 30 June	**44,050**	**11,326**
Lease liabilities included in the statement of financial position		
Lease liabilities included in the statement of financial position at 30 June	**35,016**	**10,746**

Note 24. Derivative financial instruments

	FY22 $'000	FY21 $'000
Current liabilities		
Interest rate swap contracts - derivative liability	**-**	**3,047**

Refer to note 32 for further information on financial instruments.
Refer to note 33 for further information on fair value measurement.

Note 25. Vendor conditional payables

	FY22 $'000	FY21 $'000
Current liabilities		
Vendor conditional payables	**1,390**	**-**
Non-current liabilities		
Vendor conditional payables	**1,433**	**-**

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

The vendor conditional payable represents contingent consideration payable to the vendor of shares in Quantum Hunex Korea Co Ltd, a subsidiary of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 26. Other liabilities

	FY22 $'000	FY21 $'000
Current liabilities		
Accrued expenses	14,056	11.719
Deferred revenue	10,098	1,001
Other current liabilities	165	-
	24,319	**12,720**

Note 27. Issued capital

	FY22 Shares	FY21 Shares	FY22 $'000	FY21 $'000
Ordinary shares - fully paid	644,268,271	337,885,292	228,655	113,952

Movements in ordinary share capital

Details	Date	Shares	Issue Price	$'000
Balance	1 July 2020	**337,885,292**	**-**	**202,718**
Capital reduction under section 258F(1) of the Corporations Act	31 May 2021	-	-	(88,766)
Balance	30 June 2021	**337,885,292**	**-**	**113,952**
Issue of shares pursuant to dividend reinvestment plan	1 October 2021	13,515,407	$0.2500	3,379
Issue of shares as consideration for the acquisition of Quantum Health Group Limited (note 41)	16 February 2022	274,178,624	$0.3850	105,559
Issue of shares in lieu of cash for professional fees	16 February 2022	6,793,785	$0.2880	1,957
Issue of shares	7 April 2022	1,500,000	$0.3950	593
Issue of shares pursuant to dividend reinvestment plan	26 April 2022	10,395,163	$0.3650	3,794
Share issue transaction costs	-	-	-	(579)
Balance	30 June 2022	**644,268,271**	**-**	**228,655**

Ordinary shares

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

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

Capital reduction

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

Capital risk management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 27. Issued capital *(continued)*

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

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

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

The capital risk management policy remains unchanged from the 30 June 2021 Annual Report.

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

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

The gearing ratio at the reporting date was as follows:

	FY22 $'000	FY21 $'000
Current liabilities - borrowings (note 22)	22,759	21,794
Non-current liabilities - borrowings (note 22)	73,484	80,471
Total borrowings	**96,243**	**102,265**
Current assets - cash and cash equivalents (note 12)	(46,203)	(33,197)
Net debt	50,040	69,068
Total equity	**242,335**	**121,518**
Total capital	**292,375**	**190,586**
Gearing ratio	17%	36%

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

Note 28. Reserves

	FY22 $'000	FY21 $'000
Foreign currency translation reserve	(1,440)	(1,073)
Hedging reserve - cash flow hedges	746	291
Options reserve	330	69
Dividend reserve	7,740	8,279
	7,376	**7,566**

Foreign currency translation reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 28. Reserves *(continued)*

Hedging reserve - cash flow hedges

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

Option reserve

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

Dividend reserve

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

Movements in reserves

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

	Foreign currency translation reserve $'000	Hedging reserve - cash flow hedges $'000	Option reserve $'000	Dividend reserve $'000	Total $'000
Balance at 1 July 2020	**(877)**	**(794)**	**-**	**-**	**(1,671)**
Deferred tax	-	138	-	-	138
Foreign currency translation	(196)	-	-	-	(196)
Net investment hedge	-	947	-	-	947
Share-based payments	-	-	69	-	69
Transfer of profit from retained earnings (note 29)	-	-	-	8,279	8,279
Balance at 30 June 2021	**(1,073)**	**291**	**69**	**8,279**	**7,566**
Deferred tax	-	(303)	-	-	(303)
Foreign currency translation	(367)	-	-	-	(367)
Net investment hedge	-	758	-	-	758
Share-based payments	-	-	261	-	261
Transfer of profit from retained earnings (note 29)	-	-	-	6,634	6,634
Dividends paid (note 31)	-	-	-	(7,173)	(7,173)
Balance at 30 June 2022	**(1,440)**	**746**	**330**	**7,740**	**7,376**

Note 29. Retained earnings

	FY22 $'000	FY21 $'000
Accumulated losses at the beginning of the financial year	-	(88,766)
Profit after income tax expense for the year	6,634	8,279
Capital reduction	-	88,766
Transfer to dividend reserve	(6,634)	(8,279)
Retained earnings at the end of the financial year	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 30. Non-controlling interest

	FY22 $'000	FY21 $'000
Reserves	5,794	-
Retained earnings	510	-
	6,304	**-**

Refer to note 42 for further information.

Note 31. Dividends

Dividends paid during the financial year were as follows:

	FY22 $'000	FY21 $'000
Final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share	3,379	-
Interim dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share	3,794	-
	7,173	**-**

On 1 October 2021 a fully franked final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share was paid which amounted to $3,379,000 million in total. The dividend was funded via a fully underwritten Dividend Reinvestment Scheme offering in which 13,515,407 shares were issued. The tax rate for franking credits was 30%.

On 26 April 2022 a fully franked interim dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share was paid which amounted to $3,794,000 in total. The dividend was funded via a fully underwritten Dividend Reinvestment Scheme offering in which 10,365,163 shares were issued. The tax rate for franking credits was 30%.

Dividend declared

In keeping with Directors confidence in Paragon Care, the directors have declared the payment of a fully franked final dividend of 0.6 cents per fully paid ordinary share to be paid on 4 October 2022 in respect of the financial year ended 30 June 2022. The dividend will be paid to all shareholders on the register of members as at the Record Date of 13 September 2022. This dividend has not been included as a liability in these financial statements.

Dividend reinvestment plan

Paragon Care has suspended the operation of its Dividend Reinvestment Plan ('DRP') until further notice. For clarity, the DRP will not apply to the FY22 full year dividend.

Franking credits

	FY22 $'000	FY21 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**24,693**	**17,703**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 32. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

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

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk management policy to hedge between 20% and 100% of anticipated foreign currency transactions for the subsequent 24 months.

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

	FY22 $'000	FY21 $'000
Forward exchange contracts		
Buy foreign currency (cash flow hedges):		
AUD to USD	13,134	18,935
AUD to Euro	11,763	12,851
NZD to USD	6,134	10,645
NZD to Euro	378	503
	31,409	**42,934**

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets FY22 $'000	Liabilities FY22 $'000
US dollars	1,468	11,156
Euros	3	969
New Zealand dollars	12,069	718
China RMB	10	-
Korea WON	9,584	1,048
Thailand Baht	7,407	102
Philippine Peso	795	145
	31,336	**14,138**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 32. Financial instruments *(continued)*

The Group had net assets denominated in foreign currencies of $17,198,000 (assets of $31,336,000 less liabilities of $14,138,000) as at 30 June 2022. Based on this exposure, had the Australian dollars weakened by 10%/strengthened by 10% against these foreign currencies with all other variables held constant, the impact on the Group's profit before tax for the year would have been as follows:

	AUD strengthened			AUD weakened		
FY22	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
US dollars	(10%)	969	969	10%	(969)	(969)
Euros	(10%)	97	97	10%	(97)	(97)
New Zealand dollars	(10%)	(1,135)	(1,135)	10%	1,135	1,135
China RMB	(10%)	(1)	(1)	10%	1	1
Korea WON	(10%)	(854)	(854)	10%	854	854
Thailand Baht	(10%)	(731)	(731)	10%	731	731
Philippine Peso	(10%)	(65)	(65)	10%	65	65
		(1,720)	**(1,720)**		**1,720**	**1,720**

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date. The actual foreign exchange gain for the year ended 30 June 2022 was $74,000 (30 June 2021: loss of $149,000).

Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, largely due to demand and supply factors for commodities.

The Group is exposed to movement in the market values of Renewable Energy Certificates ('RECs') and shares in listed entities.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. In order to mitigate the risk of variable interest rates, the Group has entered into an interest rate swap arrangement with the bank for loans outstanding of $67,000,000 as at 30 June 2022.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	FY22		FY21	
	Weighted average interest rate %	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank loans	4.22%	80,397	4.22%	86,397
Net exposure to cash flow interest rate risk		**80,397**		**86,397**

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 32. Financial instruments *(continued)*

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

	FY22 $'000	FY21 $'000
Financial assets		
Cash and cash equivalents (interest bearing)	46,203	33,197
Derivative asset	1,065	416
	47,268	**33,613**
Financial liabilities		
Interest bearing liabilities - variable rate (current)	(20,894)	(21,587)
Interest bearing liabilities - fixed rate (current)	(1,865)	(207)
Interest bearing liabilities - variable rate (non-current)	(6,397)	(9,397)
Interest bearing liabilities - fixed rate (non-current)	(67,087)	(71,074)
Derivative liability	-	(3,047)
	(96,243)	**(105,312)**

For the Group bank loans outstanding, totalling $80,397,000 (30 June 2021: $86,397,000), are principal and interest payment loans. Of this, $67,000,000 (30 June 2021: $71,000,000) is managed under an interest rate swap arrangement, whereby the Group exchanges the banks floating rate (BBSYbid rate+spread) for a fixed interest rate of 2.22%. The Group has bank loans outstanding subject to variable interest rates of $13,397,000 (30 June 2021: $15,397,000). Monthly cash outlays of approximately $509,000 (30 June 2021: $392,000) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (30 June 2021: 100) basis points would have an adverse/favourable effect on profit before tax of $204,000 (30 June 2021: $310,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In additional, minimum principal repayments of $7,000,000 (30 June 2021: $6,000,000) are due during the year ending 30 June 2023 (30 June 2021: 30 June 2022).

Credit risk

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

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

Liquidity risk

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	FY22 $'000	FY21 $'000
Bank loans	-	178
Trade finance facility	14,606	12,913
Bank guarantees and others	4,747	1,491
Other loans	640	-
	19,993	**14,582**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 32. Financial instruments *(continued)*

Remaining contractual maturities

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

FY22

	Weighted average interest rate %	Less than 6 months $'000	Between 6 to 12 months $'000	Between 1 and 2 years $'000	Between 2 and 6 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing	-	28,305	-	-	-	28,305
Interest-bearing - variable	2.66%	16,894	4,000	6,397	-	27,291
Interest-bearing - fixed rate	4.77%	986	986	38	67,038	69,048
Total non-derivatives		**46,185**	**4,986**	**6,435**	**67,038**	**124,644**
Derivatives						
Interest rate swap contracts	-	-	-	-	-	-
Total derivatives		**-**	**-**	**-**	**-**	**-**

FY21

	Weighted average interest rate %	Less than 6 months $'000	Between 6 to 12 months $'000	Between 1 and 2 years $'000	Between 2 and 6 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing	-	36,100	-	-	-	36,100
Interest-bearing - variable	3.19%	20,072	1,500	7,000	2,397	30,969
Interest-bearing - fixed rate	5.25%	104	104	74	71,000	71,282
Total non-derivatives		**56,276**	**1,604**	**7,074**	**73,397**	**138,351**
Derivatives						
Interest rate swap contracts	-	-	3,047	-	-	3,047
Total derivatives		**-**	**3,047**	**-**	**-**	**3,047**

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

Fair value of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 33. Fair value measurement

Fair value hierarchy

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

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

FY22

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward foreign exchange contracts - cash flow hedges	-	1,065	-	1,065
Total assets	**-**	**1,065**	**-**	**1,065**
Liabilities				
Vendor conditional payable	-	-	(2,833)	(2,833)
Total liabilities	**-**	**-**	**(2,833)**	**(2,833)**

FY21

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Listed shares	-	-	-	-
Forward foreign exchange contracts - cash flow hedges	-	416	-	416
Total assets	**-**	**416**	**-**	**416**
Liabilities				
Interest rate swap contracts - derivative liability	-	(3,047)	-	(3,047)
Total liabilities	**-**	**(3,047)**	**-**	**(3,047)**

There were no transfers between levels during the financial year.

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

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

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 33. Fair value measurement *(continued)*

Level 3 assets and liabilities

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

	Vendor conditional payable $'000
Balance at 1 July 2020	**(15,331)**
Payments	15,331
Balance at 30 June 2021	**-**
Additions through business combinations (note 41)	(2,626)
Exchange differences	(207)
Balance at 30 June 2022	**(2,833)**

Note 34. Key management personnel disclosures

Directors

The following persons were directors of Paragon Care Limited during the financial year:

Shane Tanner	Non-Executive Chairman
Mark Hooper	Chief Executive Officer and Group Managing Director (appointed 4 April 2022)
Geoffrey Sam OAM	Non-Executive Director
Brent Stewart	Non-Executive Director
Mark Simari	Non-Executive Director
John Walstab	Executive Director (appointed 16 February 2022)
Alan McCarthy	Non-Executive Director (appointed 16 February 2022)
Paul Li	Non-Executive Director (resigned 2 September 2021)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Phil Nicholl	Chief Executive Officer
Stephen Munday	Chief Financial Officer

Compensation

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

	FY22 $	FY21 $
Short-term employee benefits	1,589,278	1,272,267
Post-employment benefits	75,211	58,592
Share-based payments	670,551	18,341
	2,335,040	**1,349,200**

Further details on key management personnel remuneration can be found in the 'Remuneration report' section of the Directors' report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 35. Remuneration of auditors

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

	FY22 $	FY21 $
Audit services - RSM Australia Partners		
Audit or review of the financial statements	242,500	186,500
Other services - RSM Australia Partners		
Tax compliance services	93,750	115,430
Other services	100,750	83,520
	194,500	198,950
	437,000	385,450
Audit services - network firms		
Audit or review of the financial statements	128,215	28,500

Note 36. Contingent assets

There were no contingent assets as at 30 June 2022 and 30 June 2021.

Note 37. Contingent liabilities

The Group has given bank guarantees as at 30 June 2022 of $2,919,748 (30 June 2021: $1,467,196).

Note 38. Commitments

There were no capital commitments as at 30 June 2022 and 30 June 2021.

Note 39. Related party transactions

Parent entity
Paragon Care Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 42.

Key management personnel
Disclosures relating to key management personnel are set out in note 34 and the remuneration report included in the directors' report.

Transactions with related parties
The following transactions occurred with related parties:

The following transactions occurred with related parties of John Walstab:

	FY22 $	FY21 $
Salaries and other benefits paid to relatives of KMP	116,253	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 39. Related party transactions *(continued)*

Transactions with related parties *(continued)*

Mark Simari (a director of Paragon Care) trading as Akita Consulting, an authorised representative of Charkaroo Pty Ltd, who is in turn a corporate authorised representative of Sequoia Wealth Management Pty Ltd (Sequioa) and Sequioa were paid $370,000 to provide consultancy services for corporate advisory advice and services in relation to potential business opportunities that arise from time to time; $250,000 of the $370,000 fees paid to Akita Consulting and Sequioa were paid in relation to the acquisition of Quantum Healthcare Limited. The corporate advisory agreement with Akita Consulting and Sequoia was terminated in February 2022 after the completion of the Quantum acquisition. Charkaroo Pty Ltd is entitled to 42.5% of fees charged by Sequoia to Paragon Care, total fees charged by Sequoia during the financial year were $370,000 (30 June 2021: $148,500) of which Charkroo was entitled to $157,250 (30 June 2021: $63,113).

Brent Stewart, director, was a director of Brent Michael Stewart and Michelle Jane Stewart ATF the Brent Stewart Superannuation Fund, when it received $nil (30 June 2021: $1,365,178) during the financial year for Surgical Specialties Pty Ltd earn out payment.

Geoffrey Sam, director, is a director for HealtheCare Surgical. HealtheCare is a client of the group, purchasing $1,661,462 (30 June 2021: $3,187,809) of products during the year.

Receivable from and payable to related parties

Geoffrey Sam, director, is a director for HealtheCare Surgical. At 30 June 2022, HealtheCare Surgical owes the Group $283,605 (30 June 2021: $412,072).

Loans to/from related parties

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

Terms and conditions

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

Note 40. Parent entity information

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

Statement of profit or loss and other comprehensive income

	FY22 $'000	Parent FY21 $'000
Loss after income tax	(9,290)	(3,387)
Total comprehensive income	(9,290)	(3,387)

Statement of financial position

	FY22 $'000	Parent FY21 $'000
Total current assets	1	615
Total assets	262,767	154,845
Total current liabilities	1,797	2,274
Total liabilities	1,797	4,813
Equity		
Issued capital	228,655	113,952
Hedging reserve - cash flow hedges	-	(546)
Options reserve	330	69
Retained earnings	31,985	36,557
Total equity	**260,970**	**150,032**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 40. Parent entity information *(continued)*

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity and its controlled entities are party to a deed of cross guarantee under which each company guarantees the debts of the others.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

Significant accounting policies

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

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

Note 41. Business combinations

FY22

Quantum Health Group Limited

Paragon Care Limited ('Paragon Care') and Quantum Health Group Limited ('Quantum') (ASX: QTM) entered into a Scheme Implementation Deed ('the Deed') on 6 November 2021 wherein both parties agreed that Quantum will propose a Scheme of Arrangement between Quantum and its shareholders ('the Scheme'), pursuant to which Paragon Care will acquire 100% of the ordinary shares in Quantum, through an all-scrip transaction.

Under the Deed, Quantum shareholders shall receive 0.243 Paragon Care shares for each Quantum share they own as at the record date of the Scheme, therefore resulting in existing Quantum shareholders owning approximately 43.8% of the combined entity in aggregate and Paragon Care being the ongoing listed entity. The Scheme was approved by requisite majority of Quantum shareholders on 27 January 2022. Quantum was entitled to nominate up to two directors to join the Board of Paragon Care immediately following the implementation of the Scheme. The Supreme Court of New South Wales made orders approving the scheme on 1 February 2022 and the scheme became legally effective on 2 February 2022.

Pursuant to the above, Paragon Care has issued 274,178,915 ordinary shares (having a fair value of $105.56 million with the issue price of $0.385 per ordinary share) to Quantum shareholders on 16 February 2022 (with a record date of 9 February 2022).

The above transaction has been assessed to be a business combination under AASB 3 'Business Combinations' wherein Paragon Care is the acquirer and Quantum is the acquiree. The effective date of the acquisition is 16 February 2022 (being the implementation date of the Scheme).

Quantum is a leading independent high-end distributor of medical equipment across Australia and New Zealand, as well as key Asian markets including Korea, Thailand, the Philippines, China and Vietnam. Quantum specialises in the sales and service of diagnostic equipment for radiology, oncology, molecular imaging and aesthetics, and represents leading multinational manufacturers across Asia with long-standing relationships.

Paragon Care and Quantum are highly complementary businesses. The merged entity will have an opportunity to cross-sell the combined product portfolio into the higher growth Asian markets and attract new suppliers over time based on its larger distribution footprint and commitment to high levels of corporate governance in Asian markets.

The goodwill of $92,015,000 represents expected synergies from the merger. The acquired business contributed revenues of $29,128,000 and profit after tax of $1,938,000 to the Group for the period from 2 February 2022 to 30 June 2022. If the acquisition occurred on 1 July 2022, the full year contributions would have been revenues of $60,521,000 and profit after tax of $6,312,000. The values identified in relation to the acquisition of Quantum Health Group Limited are provisional as at 30 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 41. Business combinations *(continued)*

Details of the acquisition are as follows:

	Quantum Health Group Limited (Provisional) Fair value $'000
Cash and cash equivalents	11,681
Net working capital, excluding cash and cash equivalents	5,027
Investment property	261
Property, plant and equipment	2,844
Right-of-use assets	1,629
Intangibles	81
Deferred tax asset	2,380
Other non-current assets	1,926
Vendor conditional payables	(2,626)
Borrowings	(2,163)
Lease liability	(1,702)
Net assets acquired	**19,338**
Goodwill	92,015
Acquisition-date fair value of the total consideration transferred	**111,353**
Representing:	
Paragon Care Limited shares issued to vendor	105,559
Non-controlling interest acquired	5,794
	111,353
Acquisition costs expensed to profit or loss	**3,048**
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	111,353
Less: cash and cash equivalents	(11,681)
Less: shares issued by Company as part of consideration	(105,559)
Less: non-controlling interest acquired	(5,794)
Net cash received	**(11,681)**

The fair value of trade receivables is $11,962,000. The gross contractual amount for trade receivables due is $12,388,000, of which $426,000 is not expected to be collected.

FY21

There were no business combinations during the year ended 30 June 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 42. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		FY22 %	FY21 %
Paragon Care Group New Zealand Management Services Ltd	New Zealand	100%	100%
Paragon Care Group New Zealand Ltd	New Zealand	100%	100%
Paragon Care Group Management Services Pty Ltd	Australia	100%	100%
Paragon Care Group Australia Pty Ltd	Australia	100%	100%
Paragon Care Group Holding Company Pty Ltd	Australia	100%	100%
Medtek Pty Ltd	Australia	100%	100%
Paragon Medical Ltd	New Zealand	100%	100%
Designed for Vision Ltd	New Zealand	100%	100%
REM Systems Ltd	New Zealand	100%	100%
REM Systems Pty Ltd	Australia	100%	100%
Meditron Pty Ltd	Australia	100%	100%
Western Biomedical Pty Ltd	Australia	100%	100%
Designs For Vision Holdings Pty Ltd	Australia	100%	100%
Designs For Vision (Aust) Pty Ltd	Australia	100%	100%
Designs For Vision Pty Ltd	Australia	100%	100%
Electro Medical Group Pty Ltd	Australia	100%	100%
MIDAS Software Solutions Pty Ltd	Australia	100%	100%
Immulab Pty Ltd	Australia	100%	100%
Insight Surgical Pty Ltd	Australia	100%	100%
MedTech Solution Pty Ltd	Australia	100%	100%
Surgical Specialities Holdings Pty Ltd	Australia	100%	100%
Surgical Specialities Group Pty Ltd	Australia	100%	100%
Surgical Specialities Pty Ltd	Australia	100%	100%
Therapy Specialities Pty Ltd	Australia	100%	100%
Surgical Specialities (NZ) Ltd	New Zealand	100%	100%
Therapy Specialities Ltd	New Zealand	100%	100%
Pergamon Technologies Pty Ltd	Australia	100%	100%
Immuno Pty Ltd	Australia	100%	100%
Immuno Ltd	New Zealand	100%	100%
Labgear Australia Pty Ltd	Australia	100%	100%
Paragon Medical Pty Ltd	Australia	100%	100%
Scanmedics Pty Ltd	Australia	100%	100%
Lovell Surgical Supplies International Pty Ltd	Australia	100%	100%
Lovell Surgical Supplies Pty Ltd	Australia	100%	100%
Lovell Surgical Solutions Pty Ltd	Australia	100%	100%
Total Communications Pty Ltd	Australia	100%	100%
Quantum Health Group Limited	Australia	100%	-
Quantum Energy Technologies Pty Ltd	Australia	100%	-
Quantum Energy Installations Pty Ltd	Australia	100%	-
Quantum Healthcare Australia Pty Ltd	Australia	100%	-
Medishop Pty Ltd	Australia	100%	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 42. Interests in subsidiaries *(continued)*

Name	Principal place of business / Country of incorporation	Ownership interest	
		FY22 %	FY21 %
Quantum Solar Power Pty Ltd	Australia	100%	-
Quantum Energy Technologies (Suzhou) Co Ltd	China	100%	-
Suzhou Sheerdrop Wine Co Ltd	China	100%	-
Med-X Healthcare Pty Ltd	Australia	100%	-
Quantum Healthcare Pty Ltd	Australia	100%	-
Quantum Healthcare Hong Kong Limited	China	100%	-
Quantum Holdings Co. Ltd	Korea	100%	-
Carestream Health Philippines, Inc.	Philippines	100%	-
Quantum Healthcare NZ Ltd	New Zealand	100%	-
Quantum Bio Science Co. Ltd	Korea	100%	-
Quantum Hunex Korea Co. Ltd	Korea	100%	-
Quantum Healthcare Co. Ltd	Korea	100%	-
AH563 Pty Ltd*	Australia	-	100%
Rapini Pty Ltd*	Australia	-	100%
Paragon Healthcare Pty Ltd*	Australia	-	100%
GM Medical Pty Ltd*	Australia	-	100%
Iona Medical Products Pty Ltd*	Australia	-	100%
Volker Australia Pty Ltd*	Australia	-	100%
L.R. Instruments Pty Ltd*	Australia	-	100%
Richards Medical Pty Ltd*	Australia	-	100%
Unikits Pty Ltd*	Australia	-	100%
Walkit Pty Ltd*	Australia	-	100%

* AH563 Pty Ltd and its subsidiaries were deregistered during the year to 30 June 2022

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

Name	Principal place of business / country of incorporation	Parent		Non-controlling interest	
		Ownership interest	Ownership interest	Ownership interest	Ownership interest
		FY22 %	FY21 %	FY22 %	FY21 %
Quantum Healthcare Thailand Co. Ltd	Thailand	49%	-	51%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 42. Interests in subsidiaries *(continued)*

Summarised financial information

Summarised financial information of the subsidiary with non-controlling interests that are material to the Group are set out below:

	Quantum Healthcare Thailand Co. Ltd FY22 $'000
Summarised statement of financial position	
Current assets	14,925
Non-current assets	1,846
Total assets	**16,771**
Current liabilities	3,457
Non-current liabilities	1,074
Total liabilities	**4,531**
Net assets	**12,240**
Summarised statement of profit or loss and other comprehensive income	
Revenue	8,182
Expenses	(6,894)
Profit before income tax expense	1,288
Income tax expense	(288)
Profit after income tax expense	1,000
Other comprehensive income	-
Total comprehensive income	**1,000**
Statement of cash flows	
Net cash from operating activities	1,570
Net cash used in investing activities	(2,596)
Net cash used in financing activities	(43)
Net decrease in cash and cash equivalents	**(1,069)**
Other financial information	
Profit attributable to non-controlling interests	510
Accumulated non-controlling interests at the end of reporting period	(6,304)

The financial results and cash flow information has been provided for the period from 16 February 2022 (being the date when the entity became a subsidiary of the Group) to 30 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 43. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Paragon Care Group Management Services Pty Ltd
Paragon Care Group Australia Pty Ltd
Paragon Care Group Holding Company Pty Ltd
Medtek Pty Ltd
REM Systems Pty Ltd
Meditron Pty Ltd
Western Biomedical Pty Ltd
Designs For Vision Holdings Pty Ltd
Designs For Vision (Aust) Pty Ltd
Designs For Vision Pty Ltd
Electro Medical Group Pty Ltd
MIDAS Software Solutions Pty Ltd
Immulab Pty Ltd
Insight Surgical Pty Ltd
MedTech Solution Pty Ltd
Surgical Specialities Holdings Pty Ltd
Surgical Specialities Group Pty Ltd
Surgical Specialities Pty Ltd
Therapy Specialities Pty Ltd
Pergamon Technologies Pty Ltd
Immuno Pty Ltd
Labgear Australia Pty Ltd
Paragon Medical Pty Ltd
Scanmedics Pty Ltd
Lovell Surgical Supplies International Pty Ltd
Lovell Surgical Supplies Pty Ltd
Lovell Surgical Solutions Pty Ltd
Total Communications Pty Ltd
Quantum Health Group Limited
Quantum Energy Technologies Pty Ltd
Quantum Healthcare Australia Pty Ltd
Medishop Pty Ltd
Quantum Solar Power Pty Ltd
Quantum Healthcare Pty Ltd

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

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

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

Note 44. Cash flow information

Reconciliation of profit after income tax to net cash from operating activities

	FY22 $'000	FY21 $'000
Profit after income tax expense for the year	**7,144**	**8,279**
Adjustments for:		
Depreciation and amortisation	7,978	6,200
Write off of obsolete inventory	4,604	-
Net loss on disposal of property, plant and equipment	236	-
Share-based payments	850	69
Allowance for expected credit losses	93	(232)
Foreign exchange differences	(935)	-
Issue of shares as consideration for acquisition costs	1,957	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	7,400	6,207
Decrease/(increase) in inventories	8,292	(4,916)
Decrease/(increase) in income tax refund due	407	(337)
Decrease in deferred tax assets	2,171	3,919
Increase in derivative assets	(649)	(416)
Increase/(decrease) in trade and other payables	(17,128)	9,790
Decrease in derivative liabilities	(3,047)	(1,578)
Increase in provision for income tax	550	-
Increase/(decrease) in employee benefits	(891)	478
Net cash from operating activities	**19,032**	**27,463**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 44. Cash flow information *(continued)*

Non-cash investing and financing activities

	FY22 $'000	FY21 $'000
Shares issued under dividend reinvestment plan	7,173	-
Shares issued in relation to business combinations	105,559	-
Increase/(reduction) in lease liability arising from lease modification	308	(2,049)
	113,040	**(2,049)**

Changes in liabilities arising from financing activities

	Bank loans $'000	Other loans $'000	Trade finance facility $'000	Lease liability/ hire purchase $'000	Total $'000
Balance at 1 July 2020	**86,397**	**-**	**11,447**	**17,184**	**115,028**
Net cash from/(used in) financing activities	-	-	4,140	(4,108)	32
Reduction in lease liability arising from lease modification	-	-	-	(2,049)	(2,049)
Balance at 30 June 2021	**86,397**	**-**	**15,587**	**11,027**	**113,011**
Net cash used in financing activities	(6,000)	(371)	(1,693)	(3,326)	(11,390)
Acquisition of leases	-	-	-	25,465	25,465
Changes through business combinations (note 41)	-	2,163	-	1,702	3,865
Increase in lease liability arising from lease modification	-	-	-	308	308
Balance at 30 June 2022	**80,397**	**1,792**	**13,894**	**35,176**	**131,259**

Note 45. Earnings per share

	FY22 $'000	FY21 $'000
Profit after income tax	7,144	8,279
Non-controlling interest	(510)	-
Profit after income tax	**6,634**	**8,279**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	454,144,365	337,885,292
Adjustments for calculation of diluted earnings per share:		
Performance rights	10,543,023	6,914,546
Weighted average number of ordinary shares used in calculating diluted earnings per share	**464,687,388**	**344,799,838**

	Cents	Cents
Basic earnings per share	1.46	2.45
Diluted earnings per share	1.43	2.40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 46. Share-based payments

Performance rights

Vesting conditions and important dates

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

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

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

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

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

The first vesting date of performance rights issued on 22 February 2021 is 30 June 2021 and will lapse on 30 September 2023 if not vested and exercised.

The vesting conditions for performance rights granted on 28 September 2021 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price of 45c being achieved in the financial year 2022 calculated on a 14-day VWAP;
- Tranche 2: One third to vest subject to continuous employment and a minimum share price of 55c being achieved in the financial year 2023 calculated on a 14-day VWAP; and
- Tranche 3: One third to vest subject to continuous employment and a minimum share price of 65c being achieved in the financial year 2024 calculated on a 14-day VWAP.

The first vesting date of performance rights issued on 28 September 2021 is 30 June 2022 and will lapse on 30 September 2024 if not vested and exercised.

Other conditions

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

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

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

Summary of performance rights granted

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

FY22

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired / forfeited / other	Balance at the end of the year
26/04/2019	30/09/2022	188,810	-	-	-	188,810
22/02/2021	30/09/2023	6,725,736	-	-	-	6,725,736
28/09/2021	28/09/2024	-	4,798,529	-	-	4,798,529
		6,914,546	**4,798,529**	**-**	**-**	**11,713,075**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 46. Share-based payments *(continued)*

FY21

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

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2 years (30 June 2021: 3 years).

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

Grant date	Expiry date	Share price at grant date	Fair value at grant date
28/09/2021	30/09/2024	$0.3000	$0.1340
28/09/2021	30/09/2024	$0.3000	$0.1360
28/09/2021	30/09/2024	$0.3000	$0.1380

Share-based payments expense

	FY22 $'000	FY21 $'000
Share-based payments expense	**850**	**69**

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

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

On 28 September 2021, the company granted 4,798,529 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.

On 5 April 2022, Mark Hooper received 1,500,000 equity shares as sign-on bonus (as part of remuneration) valued at $593,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022 (FY22)

Note 47. Events after the reporting period

On 24 August 2022, Paragon entered into an agreement with the owners of Specialist Medical Supplies Pty Ltd ('SMS') to acquire the SMS business for a consideration $15.5 million, wherein Paragon will acquire 100% of the ordinary shares of SMS from the vendors. The transaction will be funded by 20% scrip and 80% cash consideration and will complete on 31 August 2022. The cash portion of the transaction will be funded from existing facilities. The vendors will be entitled to an earnout payment based on 1.5 times any growth in EBITDA in the first 12 months.

The above transaction has been assessed to be a business combination under AASB 3 'Business Combinations' wherein Paragon Care is the acquirer and SMS is the acquiree. The effective date of the acquisition is 1 September 2022.

SMS is the leading supplier in Australia of biopsy and skin lesion scalpels and other related products as well as a urethral bulking agent used in the treatment of female stress urinary incontinence. Operating since 1993, SMS has headquarters and a distribution centre located at Macquarie Park, NSW and supplies the pathology market, local specialist distributors and hospitals, predominantly in NSW and Queensland.

Paragon Care and SMS are highly complementary businesses. The merged entity will have an opportunity to cross-sell the combined product portfolio into the higher growth Asian markets and attract new suppliers over time based on its larger distribution footprint and commitment to high levels of corporate governance in Asian markets.

The initial accounting for the business combination is incomplete at the time the annual financial report was authorised for issue. Accordingly, disclosures relating to fair value of assets acquired and liabilities assumed and the resultant goodwill have not been made.

Apart from the dividend declared as disclosed in note 31, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

DIRECTORS' DECLARATION

For the year ended 30 June 2022 (FY22)

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 43 to the financial statements.

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

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

On behalf of the directors

Mark Hooper
Group CEO and Managing Director
Paragon Care Limited

24 August 2022
Melbourne

AUDITOR'S REPORT

For the year ended 30 June 2022

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2022 (FY22)

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT
To The Members of Paragon Care Limited

Opinion

We have audited the financial report of Paragon Care Limited ("the Company") and its subsidiaries (together referred to as "the Group") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2022 (FY22)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed this matter
Accounting for business combinations Refer to Note 41 in the financial statements	
During the year, the Group completed the acquisition of 100% of the ordinary shares of Quantum Health Group Limited ("Quantum") by way of an all-scrip transaction wherein Paragon Care has issued its equity shares having a fair value of $105.6 million to Quantum shareholders. The above transaction has been assessed to be a business combination under AASB 3 *Business Combinations* wherein Paragon Care is the acquirer and Quantum is the acquiree. The values identified in relation to the acquisition of Quantum are provisional as at 30 June 2022. The accounting for business combination was considered a Key Audit Matter as the accounting for the transaction is complex and involves significant judgements in applying the relevant accounting standards. These matters include the identification of acquirer, recognition and valuation of consideration paid, the determination of the fair value of the assets acquired and liabilities assumed, and the resultant goodwill.	Our procedures to assess the accounting treatment of the the business combination included: • Obtaining and reviewing the Scheme Implementation Deed ("the Deed") between Paragon and Quantum, the Scheme of Arrangement ("the Scheme") entered between Quantum and its shareholders and other associated documents to understand the key terms and conditions and ensuring that the transaction had been accounted for in accordance with AASB 3 *Business Combinations*. • Testing the accuracy of the purchase consideration by reviewing the Deed, the Scheme and the issue of equity shares by Paragon; • Assessing the appropriateness of the fair values of the net assets acquired having regard to the completeness of assets acquired and liabilities assumed, and the reasonableness of any underlying assumptions in their respective valuations, including useful lives of the tangible and intangible assets acquired and the resultant goodwill. • Assessing the disclosures in Note 41 to the financial statements in order to assess compliance with the disclosure requirements of AASB 3.

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2022 (FY22)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed this matter
Impairment of Goodwill Refer to Note 20 in the financial statements	
As at 30 June 2022, the Group had goodwill with a carrying amount of $241 million (approx. 56% of the total assets of the Group) relating to its acquisitions in the current and previous years. As required by AASB 136 *Impairment of Assets,* management has performed an impairment assessment over the goodwill balance as at 30 June 2022 by: • calculating the recoverable amount of each identified cash generating unit ("CGU"), which was determined to be the value-in-use of the CGUs, using a discounted cash flow model. This model used cash flow projections for the CGUs for 5 years, with a terminal growth rate applied to the 5th year. • discounting the cash flow projections to their net present value using the Group's weighted average cost of capital ("WACC"); and • comparing the resulting value-in-use of each CGU to its carrying amount. As a result of this exercise, no impairment of goodwill was considered necessary during the year. Management also performed a sensitivity analysis over the value-in-use calculations of the CGUs by varying the key assumptions used to assess the impact on the valuations. We determined the impairment of goodwill to be a Key Audit Matter due to the materiality of the goodwill balance, and because the directors' assessment of the 'value-in-use' of the CGUs involves judgements about the future underlying cash flows of the business, estimated growth rates for the CGUs for the next 5 years as well as in perpetuity, and the discount rates applied to the estimated cash flows.	Our audit procedures in relation to management's impairment assessment involved the assistance of our Corporate Finance team where required, and included: • Assessing management's determination that the goodwill should be allocated to two CGUs based on the nature of the Group's business and the manner in which results are monitored and reported; • Assessing the value-in-use calculations; • Challenging the reasonableness of key assumptions, including the cash flow projections, future growth rates, discount rates and terminal values; • Checking the mathematical accuracy of the discounted cash flow model and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; • Reviewing management's sensitivity analysis over the key assumptions in the model and assessing whether the assumptions have been applied on a consistent basis across each scenario; and • Assessing the disclosures in Note 20 to the financial statements to assess the appropriateness, completeness, and compliance with the disclosure requirements of AASB 136 *Impairment of assets* and AASB 138 *Intangible assets.*

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2022 (FY22)

RSM

Key Audit Matters (Continued)

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Inventory Valuation, including provision for inventory obsolescence
Refer to Note 14 in the financial statements</td></tr>
<tr><td>The Group's inventory balance, as disclosed in Note 14, consists primarily of finished goods of various medical equipment held for distribution.

Inventory is valued at the lower of cost and net realisable value. The determination of net realisable value of inventory requires a significant degree of management judgement including assumptions concerning the provision for obsolescence, as well as future market conditions based on changing customer needs and market trends.

The Group carries a provision for inventory obsolescence of $12.9 million (2021: $11.2 million) as a result of inventory review undertaken as part of the Group's sales strategy and rationalisation measures.

On the basis of the factors set out above, the valuation of inventory was considered to be a Key Audit Matter.</td><td>Our audit procedures in relation to the valuation of inventory and provision for obsolescence included:

• Obtaining an understanding of key controls relating to inventory management and the policies and procedures around provision for inventory obsolescence;
• Evaluating management's assumptions and estimates applied to the provision for obsolescence through analysis of inventory ageing and historical sales levels by inventory product from the date the product was purchased in conjunction with assessing the quantity of products held;
• Understanding the provisioning methodology and assessing the appropriateness thereof;
• Assessing and validating the key assumptions applied by management in estimating the provision, by performing enquiries of management and reviewing the current purchasing strategy and rationalisation plans;
• Testing the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and
• Assessing the completeness and accuracy of disclosures in relation to the accounting estimates within the financial statements in accordance with the Australian Accounting Standards.</td></tr>
<tr><td colspan="2">Recognition of Revenue
Refer to Note 5 in the financial statements</td></tr>
<tr><td>The Group's revenue from operations for the year ended 30 June 2022 was $247.9 million.

Whilst revenue recognition does not involve significant management estimates or judgements, it is considered a Key Audit Matter because of its significance to the Group's reported financial performance.

The risk is heightened due to having distinct product lines within the medical equipment business (diagnostics, capital and consumables, devices, services and technology) across different accounting systems.

Revenue recognition can be impacted by a failure to correctly measure revenue in accordance with applicable accounting standards and/or by applying an incorrect approach to period end cut-off.</td><td>Our audit procedures in relation to revenue recognition included:

• Assessing whether the Group's revenue recognition policies were in compliance with the requirements of AASB 15 Revenues from Contracts with Customers;
• Evaluating and testing the operating effectiveness of key controls related to revenue recognition;
• Reviewing any large or unusual transactions close to the end of the financial year;
• Conducting a combination of tests of controls, substantive analytical procedures and tests of details in respect of revenue related transactions; and
• Reviewing disclosures in relation to impact on adoption of AASB 15 and the disaggregation of revenues in the financial statements.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2022 (FY22)

RSM

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2022 (FY22)

Report on the Remuneration Report

Opinion on the Remuneration Report
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Paragon Care Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001.*

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

RSM

RSM AUSTRALIA PARTNERS

M PARAMESWARAN
Partner

Melbourne, Victoria
Dated: 24 August 2022

SHAREHOLDER INFORMATION

For the year ended 30 June 2022

SHAREHOLDER INFORMATION

For the year ended 30 June 2022 (FY22)

The shareholder information set out below was applicable as at 17 August 2022.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Fully Paid Ordinary Shares

	Total holders	Number of shares	%
1 to 1,000	1,071	432,691	0.07
1,001 to 5,000	2,028	5,600,879	0.87
5,001 to 10,000	928	7,072,402	1.10
10,001 to 100,000	2,047	65,347,653	10.14
100,001 and over	399	565,814,646	87.82
	6,473	**644,268,271**	**100.00**

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

	Total holders	Number of shares	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	2	188,810	1.21
100,001 and over	40	15,376,106	98.79
	42	**15,564,916**	**100.00**

SHAREHOLDER INFORMATION

For the year ended 30 June 2022 (FY22)

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
MR JOHN WALSTAB	125,075,109	19.41
PERPETUAL CORPORATE TRUST LTD (PPAPL A/C)	53,297,068	8.27
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,365,537	4.25
FIRST SAMUEL LTD ACN 086243567 (ANF ITS MDA CLIENTS A/C)	26,952,706	4.18
REALM GROUP PTY LIMITED	26,280,861	4.08
CITICORP NOMINEES PTY LIMITED	23,117,293	3.59
NATIONAL NOMINEES LIMITED	19,860,930	3.08
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	17,572,009	2.73
BERNE NO 132 NOMINEES PTY LTD (77539 A/C)	16,717,541	2.59
MR YOUNG CHUN KIM	10,692,000	1.66
MR PHILLIP SIDNEY	9,720,000	1.51
NORFOLK ENCHANTS PTY LTD (TROJAN RETIREMENT FUND A/C)	5,727,024	0.89
WOODROSS NOMINEES PTY LTD	5,004,490	0.78
JMT INVESTMENT GROUP VIC PTY LTD (JOHN TURNER SUPER FUND A/C)	5,000,000	0.78
NEGRONI HOLDINGS PTY LTD (THE DFN A/C)	4,727,531	0.73
MRS SANDRA JOAN MCDONALD & MR ANDREW MCDONALD (MCDONALD FAMILY S/FUND A/C)	4,502,524	0.70
JMT INVESTMENT GROUP VIC PTY LTD	4,000,000	0.62
DIXSON TRUST PTY LIMITED	3,943,800	0.61
MR DAVID KENNEY	3,942,129	0.61
MR RICHARD ALBARRAN	3,942,129	0.61
	397,440,681	**61.68**

SHAREHOLDER INFORMATION

For the year ended 30 June 2022 (FY22)

Substantial holders

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

	Number held	Ordinary shares % of total shares issued
Mr John Walstab	125,075,109	19.41
Pioneer Hong Kong Group and the List	53,297,068	8.27

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 933,526 at $0.330 per share as at 17 August 2022):

	Total holders	Number of shares	%
Fully paid ordinary shares			
Holdings less than a marketable parcel	1,390	825,572	0.16

Voting rights

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

Ordinary shares

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

Unlisted performance rights

Unlisted performance rights do not carry any voting rights.

There are no other classes of equity securities.

Additional shareholder information

The 2022 Annual General Meeting will be held on Wednesday, 23 November 2022 at 1.00pm (Melbourne time). Further details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch.

In accordance with rule 3.5(c) of the Company's constitution, the Closing Date for Nomination of Director is Wednesday, 12 October 2022. Any nomination must be received in writing no later than 5.00pm (Melbourne time) on Wednesday, 12 October 2022 at the Company's Registered Office.

AN EXTREMELY ATTRACTIVE SET OF HEALTHCARE BUSINESSES WHICH NOW HAVE A STRONG FOUNDATION FOR GROWTH OVER THE NEXT 3–5 YEARS.

ParagonCare

paragoncare.com.au

Paragon Care Annual Report 2022
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