Investing for growth

Annual Report 2023

ParagonCare
Enabling Healthcare

“Paragon Care delivered a strong underlying EBITDA of $38.4m in FY23. Leveraging on the strategic work completed during the year, Paragon Care is in a position to accelerate organic growth across all pillars and regions.

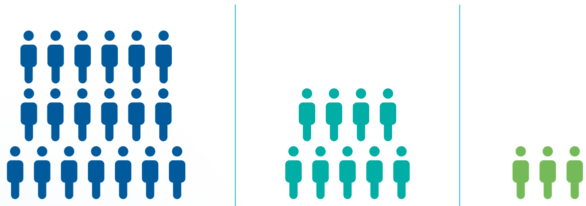
The construction of a world class reagent blood products manufacturing facility at Mount Waverley, in Victoria, is on target for completion by March 2024. The new state of the art facility will pave the way for the Immulab business to enter targeted international markets by mid-2024.”

Shane Tanner
Non-Executive Chairman

CONTENTS

BUSINESS SNAPSHOT

Our People



AUS
384

ASIA
180

NZ
61

625
employees

Strong Asia Pacific reach

ParagonCare operates across **8** countries.

Our Business Structure

Diagnostic and Scientific

Blood Bank Diagnostics Manufacturer

Clinical Pathology Diagnostics Distribution

Scientific and R&D Laboratory Equipment Distribution

Devices

Ophthalmology & Optometry

Orthopaedics

Pain Management

Infection Prevention

Orthobiologics

Capital and Consumables

Broad presence across Australia/New Zealand/ Korea

Medical

Surgical (mainly New Zealand)

Veterinary (mainly Australia)

Service and Technology

Comprehensive offering from biomedical devices to high end capital equipment across ANZ/Asia

Service support and technology management

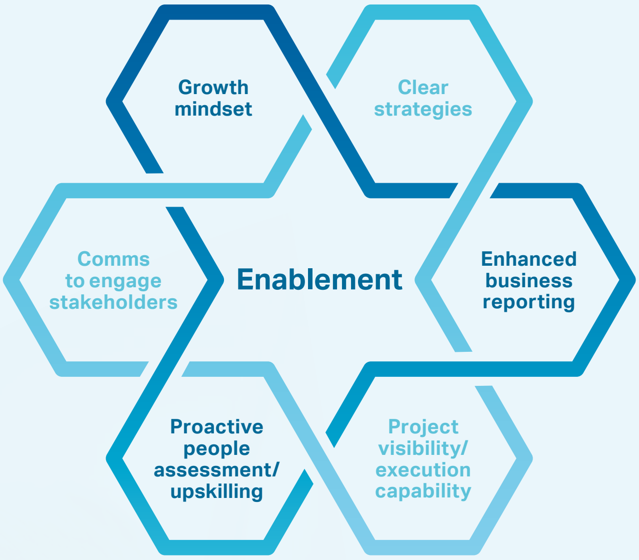
Service partnership with leading brands

Manufacturing & Distribution | Distribution

Our Focus

Organic growth
- based on strategic plans
- supported by improved execution

M & A growth
- tightly aligned to strategy
- efficiently integrated



PERFORMANCE OVERVIEW

"We have made some great progress over the last 12 months, both in terms of day-to-day business performance but also in developing and executing our longer-term strategy."

Mark Hooper
CEO and Group Managing Director

Positive progress continues with FY23 result

29% ^	Sales revenue*	Revenue* of $308m vs $238m for FY22. Mainly reflects the inclusion of Quantum and SMS.
35% ^	Underlying EBITDA#	Underlying EBITDA# of $38.4m vs $28.4m in FY22. Mainly reflects the inclusion of Quantum and SMS. Like for like organic growth of around 10% in FY23.
61% ^	Underlying Net Profit#	Underlying NPAT# of $15.6m vs $9.7m for FY22. Includes impact of higher amortisation charges ex Quantum acquisition and SaaS.
8.5%	Underlying ROIC#	FY23 8.5% vs 1H 8.7% (12 month trailing).
0.6¢ Per share	Interim dividend declared (fully franked)	Represents a 43% payout ratio of Underlying NPAT#. Last 12 months dividends (1.2cps) equates to a fully franked yield above 7%**. DRP reinstated to support additional capex requirements.
$64M	Net Debt (excluding AASB16)	Debt has decreased by $6m since December 2022. Increase since June 2022 mainly reflects cash portion of SMS acquisition. Net Debt 1.9 times Underlying EBITDA (Excl AASB16).

* Excludes Lovell discontinued operation

** Based on share price of $0.22

\# Refer to Appendix 1 in PGC FY23 results presentation, 30 August 2023

PILLAR OVERVIEW

Diagnostic and Scientific

Revenue*	$38.3m
Underlying EBITDA	$6.5m
ROIC**	12%

The Diagnostic & Scientific pillar is made up of the Immulab manufacturing business and a distribution business focused on capital equipment and consumables for pathology and other clinical settings.

This pillar showed strong growth in sales over the past twelve months, which are up by approx 30% over FY22. This was mostly due to the inclusion of the Specialist Medical Supplies (SMS) business which was acquired in September 2022. There was also some organic growth in the remaining business, but this was partly offset by some underperformance in pathology consumables and lower viral transport media (VTM) sales (which were COVID related).

This strong growth in sales has also seen an uplift in Underlying EBITDA to $6.5m. ROIC of 12% was slightly lower than expected due to dual rental charges on the main manufacturing sites.

The core of the Diagnostic & Scientific pillar is the Immulab manufacturing business. Immulab remains the market leader in reagent red cell products which are used by Blood Banks to ensure a compatible blood transfusion for patients. This provides access into Clinical and Life Science laboratories throughout Australia and New Zealand which offers a unique cross-selling platform for our manufacturing and distribution business.

Our new state of the art manufacturing facility at Mount Waverley, in Victoria, is expected to be completed by early 2024 and will facilitate Immulab's expansion into the export market.

Devices

Revenue*	$78.7m
Underlying EBITDA	$12.2m
ROIC**	14%

The Devices pillar comprises of two distinct business units, Surgical Specialties (orthopaedics and pain management) and Designs For Vision (phthalmology and optometry capital and consumables).

Revenue improved by 14% over the past twelve months, which reflects strong volume growth in Surgical Specialties and a broadened portfolio in Designs for Vision (DFV).

Underlying EBITDA was $12.2m with ROIC a healthy 14%.

The growth in Surgical Specialties was driven by a 37% volume increase in knee and hip replacements over FY22, which was impacted severely by COVID-19. The revenue impact was partly offset by the impact of Protheses Price List reforms.

In quarter 4, we also made the difficult decision to close our Lovell business and exit what had become a commercially unattractive for small scale surgical pack manufacturers. These results are now shown as part of Discontinued Operations and not included in the results for the Devices pillar.

There are a number of new growth initiatives currently being implemented. These are expected to accelerate growth for both Surgical Specialties and DFV.

Capital and Consumables

Revenue*	$95.0m
Underlying EBITDA	$12.8m
ROIC**	13%

The Capital & Consumables pillar provides both capital equipment and consumables across the Australian and New Zealand markets, including an orthopaedic business in New Zealand. The pillar also incorporates the part of ParagonCare's business in Korea.

The pillar delivered a consistent performance in FY23 despite a slower than expected recovery in surgical procedures impacted by COVID-19. Offsetting this was strong growth in custom procedure packs. Overall revenue of $95m was slightly increased on a like for like basis on FY22.

Underlying EBITDA was $12.8m and a ROIC of 13%.

A number of key initiatives developed as part of the strategic plan have commenced implementation, and this will provide an enhanced platform for organic growth into the future.

A key part of this is the Education Hub located at Airport Oaks, in New Zealand, which is due to open in early FY24Q2. The new facility will include an integrated digital operating theatre and intensive care unit which will be used for product demonstrations and educational purposes for our customers throughout Australia and New Zealand.

Services and Technology

Revenue*	$95.6m
Underlying EBITDA	$12.2m
ROIC**	8%

The main component of the Service & Technology pillar is what was previously included as part of Quantum Healthcare, which has been integrated with ParagonCare's Australian Service business (PSV) and Total Communications (TC).

Revenue and earnings have seen strong growth over the past twelve months, which is mainly due to strong performance in Asia and in particular Thailand. Total revenue has increased to $95.6m with an Underlying EBITDA of $12.2m.

ROIC is 8%. We expect this to improve with the focus on recovery and growth of PSV and TC and the strong organic growth outlook across Asia.

The successful integration of Quantum into ParagonCare was a significant achievement and while there is still further work to be done, the initial results have been very promising. There remain a number of challenges in regard to PSV and TC but we are confident we have a clear strategy to address this.

Throughout the year, the pillar established key partnerships with a number of suppliers including Samsung Medison and United Imaging. These partnerships expand our product offerings and the value we provide to customers.

* Excludes Other Revenue

** ROIC is based on 12 months trailing normalised EBIT (Full year FY23 – excludes Corporate overheads) and where applicable includes proforma results for SMS

NB. Prior comparative not available as segment reporting commenced 1 July 2022

CHAIRMAN'S REPORT

Shane Tanner
Non-Executive Chairman

The ParagonCare Group has produced another strong set of results for the financial year ended 30 June 2023, which reflects continued progress towards our longer term goals.

Sales revenue was up a healthy 29% to $308 million and Underlying EBITDA* up 35% to $38.4 million. This flowed through to Underlying NPAT* which was up 61% to $15.6 million. Reported Net Profit is up 96%.

The Board has also declared a final dividend of 0.6 cents per share (1.2c for the full year) fully franked and also announced the reinstatement of the Dividend Reinvestment Program (DRP) to help support additional capital expenditure requirements in relation to the Mount Waverley site development.

A key focus over the past year has been the successful integration of the Quantum Healthcare (Quantum) and Specialist Medical Supplies (SMS) businesses, acquired in February 2022 and October 2022 respectively. Both Quantum and SMS have performed extremely well in FY23. We expect both businesses to continue this excellent performance into FY24.

Another highlight is the expansion of the site at Mount Waverley in Victoria which includes the new manufacturing and distribution facility for Immulab which will enable world class reagent blood products to be exported into the Asian region. This is expected to be fully operational in early to mid-2024 as well as providing space specifically designed for our teams from Designs For Vision and Service & Technology.

We are progressing well towards completion of works at this consolidated site which forms a critical part of our longer term strategy.

Development work continues on detailed pillar strategies. These have now all been reviewed and approved by the Board and are being implemented throughout the business. While we expect organic growth to continue into FY24, the more significant growth will come in FY25 and beyond.

On behalf of the ParagonCare Board and management team, I would like to thank you for your continued support.

Shane Tanner
Non-Executive Chairman
Paragon Care Limited

* Refer to Appendix 1 in PGC FY23 results presentation, 30 August 2023.

“It’s been pleasing to see the continued progress we’ve made over the last twelve months with the successful integration of Quantum and SMS a highlight. Both businesses performed extremely well in FY23.”

Shane Tanner
Non-Executive Chairman

PROJECT GENESIS – NEW MOUNT WAVERLEY SITE

A leading world class facility to support growth

Project Genesis is a key strategic initiative and important milestone for ParagonCare. It expands our sovereign manufacturing capabilities and consolidates all our Victorian operations onto one site. This will be the home of ParagonCare for many years to come.

This purpose-built facility will increase our manufacturing capacity and is being constructed to meet the highest industry standards while accommodating our specific production requirements. It will also incorporate modernised manufacturing technology and equipment. The facility is due for completion with full TGA accreditation in H1, 2024.

Being collectively located at the Mount Waverley site provides greater opportunities for collaboration across pillars and supports our longer-term growth aspirations. Team members have begun to enjoy working in an environment that is modern and designed to meet our entire business needs.

Facility Highlights

Advanced Manufacturing Footprint and Equipment: ParagonCare has invested in the latest clean room technology, Quality Control (QC) Laboratories, cell culture suite and formulation and dispensing capabilities along with the most current equipment and automation technologies used in IVD and pharmaceutical manufacture. The Groninger high throughput filling machine, which has advanced quality control systems is an example of the equipment that will optimise production processes, ensuring consistent product quality and output. To house and compliment this, the facility has been designed with a LEAN flow mindset, ensuring people and processes are efficient.

Scalable Infrastructure: With a focus on future growth, scalability has been incorporated into the facility layout, allowing for expansion of manufacturing capabilities together with relevant warehouse facilities as required.

Regulatory and Quality Compliance: Our Australian manufacturing and R&D facility will be conformity assessed and certified by the Therapeutics Goods Administration (TGA) and will have a Quality Management System in place which will be certified to ISO 13485:2016 requirements by notified body British Standard Institution (BSI).

Service and Technology Infrastructure: The new workshop area for our service and technology pillar is designed to service items including ophthalmology equipment and mobile x-ray machines.

Showroom: A dedicated showroom has been incorporated to display instruments and equipment to our customers. This includes optical chairs, surgical microscopes, and aged care equipment such as medical alert devices and fall detections systems.

Stage 1

Corporate office

Complete

Stage 2

Subsidiary offices

Complete

Stage 3

Immulab manufacturing*

Q4 FY24

Stage 4

Subsidiary workshop space and warehousing

Q4 FY24

* With full TGA accreditation in H1 2024.


groninger

DIRECTORS' REPORT

For the year ended 30 June 2023

DIRECTORS' REPORT

For the year ended 30 June 2023

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', 'parent entity' or 'Paragon Care') and the entities it controlled at the end of, or during, the year ended 30 June 2023 ('30 June 2023', '2023' or 'FY23'). Comparatives disclosed are for the year ended 30 June 2022 ('30 June 2022', '2022' or 'FY22').

Directors

The following persons were Directors of Paragon Care 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
Alan McCarthy	Non-Executive Director
Geoffrey Sam OAM	Non-Executive Director
Mark Simari	Non-Executive Director (retired 30 November 2022)
Brent Stewart	Non-Executive Director
John Walstab	Executive Director and Executive General Manager Paragon Care Asia

Principal activities

The principal continuing activity of the Group is the supply of durable medical equipment, medical devices and consumable medical products and maintenance of technical medical equipment to the health, aged care and veterinary 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:

	FY23 $'000	FY22 $'000
Final dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share	3,939	–
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 2023 of 0.6 cents per ordinary share	3,947	–
Interim dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share	–	3,794
	7,886	**7,173**

Dividend declared

The Directors have declared the payment of a fully franked dividend of 0.6 cents per fully paid ordinary share to be paid on 6 October 2023 in respect of the financial year ended 30 June 2023. The dividend will be paid to all shareholders on the register of members as at the Record Date of 19 September 2023. This dividend has not been included as a liability in these financial statements. As the dividend is fully franked, there are no income tax consequences for the owners of Paragon Care Limited relating to this dividend.

Dividend reinvestment plan

Paragon Care will apply the Dividend Reinvestment Plan ('DRP') to the FY23 full year dividend that enables shareholders to elect to reinvest their dividends into additional shares in Paragon Care. Shares will be issued at the price derived by applying a discount of 5% to the volume weighted average market price of shares sold on the ASX over the 5 trading days commencing on and inclusive of the Ex-Dividend Date (18 September 2023).

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Review of operations

The profit for the Group after providing for income tax amounted to $13,564,000 (30 June 2022: $6,933,000).

From continuing operations	FY23 $'000	FY22 $'000	Change from FY22 %
Revenue	**307,630**	**237,618**	**29%**
Cost of goods sold	(181,314)	(138,610)	(31%)
Gross margin	**126,316**	**99,008**	**28%**
Gross margin %	41.1%	41.7%	
Other income	3,813	2,930	
Operating expenses	(91,754)	(73,585)	
Normalised earnings before interest, tax, depreciation and amortisation ('Underlying EBITDA')	**38,375**	**28,353**	**35%**
Share-based payments expense - sign-on bonus	–	(850)	
Acquisition costs	(222)	(3,048)	
Obsolete inventory write-off	(784)	(3,540)	
Fair value gain on derivative liability	745	3,043	
Other (write-offs)/write-back – net	53	–	
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	38,167	23,958	
Depreciation and amortisation	(10,295)	(7,938)	
Earnings before interest and tax	27,872	16,020	
Interest expense	(7,021)	(6,111)	
Profit before income tax for the year	20,851	9,909	
Tax expense	(5,198)	(3,311)	
Profit after income tax for the year from continuing operations	**15,653**	**6,598**	

Paragon Care delivered a solid underlying result in FY23. Revenue was up 29% to $307,6 million, and gross profit was up 28% to $126.3 million. Underlying EBITDA increased by 35% to $38.4 million, reflecting the continued contribution from Quantum Healthcare Group Limited ('Quantum') and Specialist Medical Supplies Pty Ltd ('SMS'), with underlying NPAT increasing by 61% to $ 15.6 million. Basic Earnings per share ('EPS') increased by 16% to 1.64 cents per share ('cps'). Net debt increased to $63.7 million by 27% from $50 million mainly due to the cash outlay for the Specialist Medical Supplies acquisition.

Key highlights from continuing operations include:

Paragon Care delivered a strong underlying result with revenue in FY23 up 29% to $307.6 million. Gross margin was up 28% to $126.3 million. Gross profit margins of 41.1%, down from 41.7% on pcp, reflecting a slightly lower margin sales mix.

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 35% to $38.4 million, mainly reflecting the FY23 contribution from Quantum and ten-month contribution from SMS along with modest organic revenue growth in the original Paragon Care businesses.

Depreciation and amortisation includes:

- Quantum Identifiable Intangible Asset amortisation on acquisition of $0.3m for February 2022 to June 2022, reclassified for pcp, and $1.2 million for July 2022 to June 2023 amortisation
- SaaS project costs $1.2 million fully amortised.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

The results have also been adjusted for the decision to close the Lovell Surgical Supplies Pty Ltd business which is reported as a discontinued business in the FY23 accounts.

The net profit after tax from continuing operations of $15.6 million, up 61% on pcp, reflecting the full year contributions from Quantum and SMS ten months contribution.

Significant changes in the state of affairs

Acquisition of Specialist Medical Supplies Pty Ltd (SMS) to drive market penetration within the Diagnostic and Scientific Pillar

On 24 August 2022, Paragon Care Limited entered into an agreement with the owners of SMS to acquire the SMS business for a consideration for $15.5 million (cash $11.8 million, equity $2.9 million and an earnout of $0.8 million). Paragon Care Limited acquired 100% of the ordinary shares of SMS from the vendors. The transaction was funded by 20% script and 80% cash consideration and was completed on 1 September 2022. The cash portion of the transaction was funded from existing facilities. The vendors will be entitled to an earnout payment based on 1.5 times growth in EBITDA in the first 12 months.

New Chief Financial Officer (CFO)

In September 2022, Paragon Care announced the appointment of Josephine De Martino as its new Chief Financial Officer ('CFO'). Ms De Martino commenced on 3 October 2022. This followed the decision by Stephen Munday to finish with Paragon Care on 28 December 2022.

Appointment of Joint Company Secretary

In August 2022, Paragon Care announced the appointment of Ms Claire Newstead-Sinclair as Company Secretary of Paragon Care, effective 15 August 2022. Ms Newstead-Sinclair is Joint Company Secretary with Ms Melanie Leydin, Company Secretary.

Director retirement

Paragon Care announced in October 2022, Mark Simari's resignation effective 30 November 2022. Paragon Care Chair, Shane Tanner noted the Company is not currently intending to replace Mr Simari's position on the Board, given the additional two Directors appointed following the merger with Quantum.

Refinance

Paragon Care has entered into new finance arrangements with NAB and HSBC on 6 February 2023. These facilities now provide Paragon Care with varied term and ancillary facilities for AUD120 million and USD30 million for up to 4 years for core debt. Drawdown on the new facilities commenced on 24 February 2023 following the satisfaction of all pre-conditions.

Discontinued operations

Following an extensive strategic review, the Board concluded to discontinue operations at Lovell Surgical Supplies Pty Ltd ('Lovell'). The closure of the Lovell business took place late in the financial year and was based on the changed environment post-pandemic impacting swab production and rising costs of raw materials which impacted the continued viability of this business.

The FY23 loss before tax of $2.7 million includes $0.75 million goodwill write off and an operating loss of $1.9 million less an income tax benefit of $0.6 million has been classified as loss after tax from discontinued operations this year which is disclosed in the financial statements.

The Group is now totally focused on building capabilities in the product verticals of Diagnostic and Scientific, Devices, Capital and Consumables, Services and Technology and on focusing these capabilities into profitable market segments. The company's new head office, manufacturing and warehouse site at Mount Waverley will provide a platform for growth particularly in the In Vitro Diagnostic markets both domestically and export.

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Matters subsequent to the end of the financial year

Business acquisition

Effective 3 July 2023, Paragon Care Limited through one of its subsidiaries, Quantum Healthcare Pty Ltd acquired 100% interest in Carestream Health Japan Co. Ltd ('CSHJ') from Carestream Health International Holdings, Inc. for a consideration USD2,809,603 (AUD4,235,987). The transaction was funded from existing cash balances of USD1,509,603 (AUD2,276,000) and drawdown of USD1,000,000 (AUD1,507,682) from the HSBC facility with the remaining payment due in 12 months of USD300,000 (AUD452,305).

The transaction has been assessed to be a business combination under AASB 3 'Business Combinations' wherein Quantum Healthcare Pty Ltd is the acquirer and CSHJ the acquiree. The effective date of acquisition is 3 July 2023.

CSHJ has four lines of business, being (i) Service Digital X-Ray systems; (ii) Print Media X-Ray; (iii) Dental X-Ray and (iv) Non-Destructive Testing (Industrial). The acquisition extends Paragon Care Limited's existing distribution and service rights for Carestream products currently in Australia, New Zealand and Philippines to now also include Japan.

The initial accounting for the business combination was not finalised at the time the annual financial statements were issued. Accordingly, disclosures relating to fair value of assets acquired and liabilities assumed, and the resultant goodwill have not been made.

Non-controlling interest acquisition

Effective 15 July 2023, Quantum Healthcare Pty Ltd, one of Paragon Care Limited's subsidiaries acquired 100% interest of Quantum Healthcare (Thailand) co. Ltd ('QHT') for a consideration of Thai Baht 95.1 million (AUD4,007,420). This included Thai Baht 90 million of capital investment in the ordinary shares of QHT and a cash payment of Thai Baht 5.1 million (AUD214,909) for purchase of shares from external shareholders. Prior to the additional investment, Quantum Healthcare Pty Ltd had a 49% ownership interest in QHT. The transaction was funded by 100% cash consideration from a drawdown equivalent to Thai Baht 90 million (AUD3,792,511) from the HSBC facility and Thai Baht 5.1 million (AUD214,909) from working capital. The main business lines are Classys aesthetics equipment and Samsung Medison Ultrasound systems.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2023 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

Paragon Care expects further organic growth in FY2024, that will accelerate in FY2025. Further commentary will be provided at the AGM in November 2023.

Paragon Care is still targeting EBITDA of $100 million by FY2027 through a combination of organic and mergers and acquisitions.

Environmental regulation

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Information on Directors

Name:	**Shane Tanner**
Title:	Non-Executive Chairman
Qualifications:	FCPA, ACIS, MAICD
Experience and expertise:	Shane was a Co-Founder of Paragon Care in 2008 and has considerable experience and background in the Australian healthcare industry. Shane has been integral to a number of small and large-scale acquisitions in the business over a long period. He has also helped to establish and guide a number of significant Healthcare and Life Science businesses – he was the founding CEO of Symbion Health, one of Australia's largest diagnostic businesses and was the founding Chairman and led the IPO of Vitura Australia, Vision Eye Institute and Rhythm Biosciences.
Other current directorships:	None
Former directorships (last 3 years):	Funtastic Limited (ASX: FUN) Rhythm Biosciences Limited (ASX: RHY) Vitura Health Limited (ASX: VIT) Victory Offices Limited (ASX: VOL)
Special responsibilities:	Member of Nomination and Remuneration Committee Member of Audit and Risk Committee Member of Investment Committee
Interests in shares:	1,250,000 Fully Paid Ordinary Shares at 30 June 2023 held indirectly
Interests in rights:	None

Name:	**Mark Hooper**
Title:	Chief Executive Officer and Group Managing Director
Qualifications:	BBus (Acc), CPA, MAICD
Experience and expertise:	Mark commenced as Group CEO and Managing Director of Paragon Care in April 2022. Mark brings substantial industry and management experience to Paragon Care following his 11-year tenure as CEO and Managing Director of Sigma Healthcare Limited. 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 (ASX: SIG)
Special responsibilities:	None
Interests in shares:	3,000,000 Fully Paid Ordinary Shares at 30 June 2023 held directly 3,414,347 Fully Paid Ordinary Shares at 30 June 2023 held indirectly
Interests in rights:	3,919,057 Rights over Ordinary Shares at 30 June 2023

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Name:	**Alan McCarthy**
Title:	Non-Executive Director
Qualifications:	B Bus (Accounting.), MCom in Marketing and Organisational Behavior, CPA
Experience and expertise:	Alan's 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 he is a Non-Executive Director of Qscan Services Pty Ltd and RHC Group Ltd (Pacific Radiology, Auckland Radiology) and Bay Radiology and is also CEO of AdvaHealth Solutions Sg.
Other current directorships:	None
Former directorships (last 3 years):	Quantum Health Group Limited prior to merger with Paragon Care Limited
Special responsibilities:	Chairman of Investment Committee Member of Nomination and Remuneration Committee
Interests in shares:	None
Interests in rights:	None

Name:	**Geoffrey Sam OAM**
Title:	Non-Executive Director
Qualifications:	BCom, M.Hospital Administration, M.Economics and Social Studies, FAICD, MHA
Experience and expertise:	Geoffrey has held numerous successful ASX listed board positions including Chairman of Money 3, Director of Hutchinson'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 the Co-Founder and Director of Healthecare Group Pty Ltd, it comprises of 17 hospitals and Day surgeries.
Other current directorships:	EarlyPay Limited (ASX:EPY) IDT Australia (ASX:IDT) Change Australia Ltd (ASX:CCA)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Nomination and Remuneration Committee Member of Audit and Risk Committee
Interests in shares:	2,568,139 Fully Paid Ordinary Shares at 30 June 2023 held indirectly
Interests in rights:	None

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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 Audit and Risk Committee Member of Nomination and Remuneration Committee Member of Investment Committee
Interests in shares:	3,581,186 Fully Paid Ordinary Shares at 30 June 2023 held indirectly
Interests in rights:	None

Name:	**John Walstab**
Title:	Executive Director and Executive General Manager Paragon Care Asia
Experience and expertise:	John Walstab, Managing Director of Quantum Health Group Limited ('Quantum') has led a strong team to successfully build Quantum's medical equipment business across the Asia Pacific region. Post-merger, Quantum formed the core platform for Paragon Care's growth in Asia. Founder of Quantum in 1998 (formerly Insight Oceania), John has over 40 years' experience in medical equipment distribution 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 including; Central Sydney Private Hospital, CBTR Healthcare Solutions and SMS Healthcare.
Other current directorships:	None
Former directorships (last 3 years):	Quantum Health Group Limited prior to merger with Paragon Care Limited
Special responsibilities:	None
Interests in shares:	125,074,672 Fully Paid Ordinary Shares at 30 June 2023 held directly 437 Fully Paid Ordinary Shares at 30 June 2023 held indirectly
Interests in rights:	1,022,029 Rights over Ordinary Shares at 30 June 2023

'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.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Company secretaries

Name:	**Melanie Leydin**
Title:	Joint Company Secretary
Qualifications:	BBus (Acc. Corp Law), CA, FGIA
Experience and expertise:	Ms Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Chartered Accountants Australia and New Zealand, 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 from February 2000 to October 2021 was the principal of Leydin Freyer. In November 2021 Vistra acquired Leydin Freyer and, Ms Leydin is now Vistra Australia's Managing Director. Ms Leydin has over 25 years' experience in the accounting profession and over 15 years' experience holding Board positions including Company Secretary of ASX listed entities. 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, initial public offerings, secondary raisings, and shareholder relations.

Name:	**Claire Newstead-Sinclair**
Title:	Joint Company Secretary (appointed 15 August 2022)
Qualifications:	B Bus (Accounting), CA, GIA
Experience and expertise:	Ms Newstead-Sinclair is employed at Vistra Australia, a professional advisory and corporate services firm. Ms Newstead-Sinclair is a Chartered Accountant with extensive ASX experience across several industry sectors. Ms Newstead-Sinclair specialises in ASX statutory reporting, ASX compliance, Corporate Governance and board and secretarial support. Ms Newstead-Sinclair is appointed Company Secretary on a number of ASX listed Companies.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each Director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Management Committee	
	Attended	Held	Attended	Held	Attended	Held
Shane Tanner	12	12	2	2	–	–
Mark Hooper	12	12	–	–	–	–
Alan McCarthy	11	12	–	1	–	–
Geoffrey Sam OAM	12	12	1	1	3	3
Mark Simari	6	6	1	1	2	2
Brent Stewart	11	12	1	1	3	3
John Walstab	12	12	–	–	–	–

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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 non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at an Annual General Meeting and came into effect on 23 November 2022. Shareholders approved a maximum annual aggregate remuneration of $600,000.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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
- Long-term incentives
- Other remuneration such as superannuation, annual leave 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.

Short-term incentives ('STI')

In each full year of employment, short term incentives, in the form of cash bonuses, are paid to selected positions based on agreed targets established at the commencement of the financial year. Achievement of pre-determined key performance indicators are assessed at the end of the period, with payments based on Company discretion and demonstrated performance and STI rules.

Consolidated entity performance and link to remuneration

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

In considering non-executive director and executive remuneration, the Directors take into consideration the Company's share performance and shareholder wealth creation. During the financial year the Company's share price traded between a low of 21.0 cents and a high of 42.5 cents. As at 30 June 2023 the Company's share price (ASX: PGC) was 23.5 cents per share.

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

Employee Incentive Plan

The Group's long-term incentive ('LTI') program includes share-based payments in the form of the Paragon Care Employee Incentive Plan ('EIP'), which was approved by shareholders at the 2021 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
- The logistics and compliance costs associated with offering quality incentives where the participating employee lives and/or works.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Performance rights

Vesting conditions and important dates

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
- 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
- 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.

The vesting conditions for performance rights granted on 1 July 2022 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price 45c being achieved in the financial year 2023 calculated on a 14-day VWAP
- Tranche 2: One third to vest subject to continuous employment and a minimum share price 55c being achieved in the financial year 2024 calculated on a 14-day VWAP
- Tranche 3: One third to vest subject to continuous employment and a minimum share price 65c being achieved in the financial year 2025 calculated on a 14-day VWAP.

The first vesting date of performance rights issued on 1 July 2022 is 30 June 2023 and will lapse on 30 June 2025 if not vested and exercised.

The vesting conditions for performance rights granted on 29 November 2022 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price 45c being achieved in the financial year 2023 calculated on a 14-day VWAP
- Tranche 2: One third to vest subject to continuous employment and a minimum share price 55c being achieved in the financial year 2024 calculated on a 14-day VWAP
- Tranche 3: One third to vest subject to continuous employment and a minimum share price 65c being achieved in the financial year 2025 calculated on a 14-day VWAP.

The first vesting date of performance rights issued on 29 November 2022 is 30 June 2023 and will lapse on 30 June 2025 if not vested and exercised.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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 23 November 2022 Annual General Meeting ('AGM')

At the 23 November 2022 AGM, 91.86% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2022. 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
- Alan McCarthy – Non-Executive Director
- Geoffrey Sam OAM – Non-Executive Director
- Mark Simari – Non-Executive Director (retired 30 November 2022)
- Brent Stewart – Non-Executive Director
- John Walstab – Executive Director.

And the following persons:

- Josephine De Martino – Chief Financial Officer (appointed 3 October 2022)
- Stephen Munday – Former Chief Financial Officer (resigned 28 December 2022)
- Phil Nicholl – Executive General Manager, ParagonCare ANZ.

Amounts of remuneration

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

FY23	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	150,000	–	–	–	–	–	–	150,000
Alan McCarthy	75,000	–	–	–	–	–	–	75,000
Geoffrey Sam OAM	68,213	–	–	6,788	–	–	–	75,001
Mark Simari**	31,250	–	–	–	–	–	–	31,250
Brent Stewart	75,000	–	–	–	–	–	–	75,000
Executive Directors:								
Mark Hooper	854,458	93,500	–	25,292	–	382,500	20,597	1,376,347
John Walstab	495,925	–	–	25,292	–	–	53,486	574,703
Other Key Management Personnel:								
Josephine De Martino*	296,031	–	–	18,969	–	–	26,167	341,167
Stephen Munday**	242,720	–	–	28,026	–	–	4,426	275,172
Phil Nicholl	504,008	90,405	–	25,292	–	–	128,208	747,913
	2,792,605	**183,905**	**–**	**129,659**	**–**	**382,500**	**232,884**	**3,721,553**

* Remuneration is from date of appointment as key management personnel to 30 June 2023.
** Remuneration is from 1 July 2022 to date of resignation as key management personnel.

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**	**FY22**
Non-Executive Directors:						
Shane Tanner	100%	100%	–	–	–	–
Paul Li	–	100%	–	–	–	–
Alan McCarthy	100%	100%	–	–	–	–
Geoffrey Sam OAM	100%	100%	–	–	–	–
Mark Simari	100%	100%	–	–	–	–
Brent Stewart	100%	100%	–	–	–	–
Executive Directors:						
Mark Hooper	64%	26%	35%	74%	1%	–
John Walstab	91%	100%	–	–	9%	–
Other Key Management Personnel:						
Josephine De Martino	92%	–	–	–	8%	–
Stephen Munday	98%	95%	–	–	2%	5%
Phil Nicholl	71%	73%	12%	19%	17%	8%

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

	Cash bonus paid/payable		Cash bonus forfeited	
Name	**FY23**	**FY22**	**FY23**	**FY22**
Executive Directors:				
Mark Hooper	–	–	–	–
John Walstab	–	–	–	–
Other Key Management Personnel:				
Josephine De Martino	–	–	–	–
Stephen Munday	–	–	–	–
Phil Nicholl	–	100%	–	–

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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:	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:	Salary including superannuation $879,750. 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: 75% of fixed remuneration, subject to continued employment and performance. LTI: 75% of fixed remuneration, subject to the EIP rules.

Name:	**Alan McCarthy**
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination.
Details:	Salary including superannuation $75,000. No termination benefit.

Name:	**Geoffrey Sam OAM**
Title:	Non-Executive Director
Term of agreement:	No fixed term, no notice period required for termination.
Details:	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:	Salary including superannuation $75,000. No termination benefit.

Name:	**John Walstab**
Title:	Executive Director
Term of agreement:	No fixed term, notice period of 6 months for employee and 6 months for company.
Details:	Salary including superannuation $475,000. No termination benefit. STI 40% of remuneration per annum on achievement of KPI's.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Name:	**Josephine De Martino**
Title:	Chief Financial Officer
Term of agreement:	No fixed term, notice period 6 months for employee and 6 months for company.
Details:	Salary including superannuation $420,000. No termination benefit. STI 40% of remuneration per annum on achievement of KPI's.

Name:	**Phil Nicholl**
Title:	Executive General Manager, Paragon Care ANZ
Term of agreement:	No fixed term, notice period of 6 months for employee and 6 months for company.
Details:	Salary including superannuation $525,000. No termination benefit. STI 40% of remuneration per annum on achievement of KPI's.

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

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 2023 are set out below:

Name	Date	Shares	Issue price	$'000
Mark Hooper	5 April 2023	1,500,000	$0.2550	383

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
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
1 July 2023	30 June 2024	30 June 2026	$0.1399
1 July 2023	30 June 2025	30 June 2026	$0.1141
1 July 2023	30 June 2026	30 June 2026	$0.1085

* In the event the performance hurdles are not achieved in the year of entitlement but are subsequently achieved (by no later than 30 June 2024), 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.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Name	Number of rights granted	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
Mark Hooper	1,306,352	30 June 2023	30 June 2025	$0.1570
	1,306,352	30 June 2024	30 June 2025	$0.1630
	1,306,353	30 June 2025	30 June 2025	$0.1680
John Walstab	340,676	30 June 2023	30 June 2025	$0.1570
	340,676	30 June 2024	30 June 2025	$0.1630
	340,677	30 June 2025	30 June 2025	$0.1680
Josephine De Martino	166,667	30 June 2023	30 June 2025	$0.1570
	166,667	30 June 2024	30 June 2025	$0.1630
	166,666	30 June 2025	30 June 2025	$0.1680
	463,439	30 June 2024	30 June 2026	$0.1399
	463,439	30 June 2025	30 June 2026	$0.1141
	463,438	30 June 2026	30 June 2026	$0.1085
Phillip Nicholl	348,012	30 June 2021	30 September 2023	$0.0300
	348,012	30 June 2022	30 September 2023	$0.0300
	348,011	30 June 2023	30 September 2023	$0.0310
	450,368	30 June 2022	30 September 2024	$0.1340
	450,368	30 June 2023	30 September 2024	$0.1360
	450,367	30 June 2024	30 September 2024	$0.1380
	376,537	30 June 2023	30 June 2025	$0.1570
	376,537	30 June 2024	30 June 2025	$0.1630
	376,537	30 June 2025	30 June 2025	$0.1680
	579,298	30 June 2024	30 June 2026	$0.1399
	579,298	30 June 2025	30 June 2026	$0.1141
	579,298	30 June 2026	30 June 2026	$0.1085

Performance rights granted carry no dividend or voting rights.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

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 2023 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 $
Stephen Munday	1 July 2022	30 June 2023	100,000	15,700	–	100,000	15,700
	1 July 2022	30 June 2024	100,000	16,300	–	100,000	16,300
	1 July 2022	30 June 2025	100,000	16,800	–	100,000	16,800
	22 February 2021	30 September 2021	190,909	5,727	5,727	–	–
	22 February 2021	30 September 2022	190,909	5,727	5,727	–	–
	22 February 2021	30 September 2023	190,909	5,918	–	190,909	5,918
	28 September 2021	30 September 2022	112,000	15,008	–	112,000	15,008
	28 September 2021	30 September 2023	112,000	15,232	–	112,000	15,232
	28 September 2021	30 June 2024	112,000	15,456	–	112,000	15,456
Phillip Nicholl	1 July 2022	30 June 2023	376,537	59,116	–	–	–
	1 July 2022	30 June 2024	376,537	61,376	–	–	–
	1 July 2022	30 June 2025	376,537	63,258	–	–	–
	22 February 2021	30 September 2021	348,011	10,440	10,440	–	–
	22 February 2021	30 September 2022	348,011	10,440	10,440	–	–
	22 February 2021	30 September 2023	348,011	10,788	–	–	–
	28 September 2021	30 September 2022	450,368	60,349	–	–	–
	28 September 2021	30 September 2023	450,368	61,250	–	–	–
	28 September 2021	30 September 2024	450,368	62,151	–	–	–

Additional information

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

	2023	2022	2021	2020	2019
Share price at financial year end (cents per share)	23.50	28.00	26.50	19.00	41.50
Total dividends declared (cents per share)	0.60	1.20	1.00	–	1.10
Basic earnings per share (cents per share)	1.96	1.34	2.45	(22.87)	(4.49)

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Shane Tanner	1,219,726	–	30,274	–	1,250,000
Mark Hooper	1,500,000	1,500,000	3,414,347	–	6,414,347
Alan McCarthy	–	–	–	–	–
Geoffrey Sam OAM	2,200,639	–	367,500	–	2,568,139
Mark Simari**	413,911	–	–	(413,911)	–
Brent Stewart	3,431,686	–	149,500	–	3,581,186
John Walstab	125,075,109	–	–	–	125,075,109
Josephine De Martino*	–	–	–	–	–
Stephen Munday**	–	–	381,818	(381,818)	–
Phil Nicholl	1,764,664	–	796,779	–	2,561,443
	135,605,735	**1,500,000**	**5,140,218**	**(795,729)**	**141,450,224**

* 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.

Performance rights holding

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

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
Shane Tanner	–	–	–	–	–
Mark Hooper	–	3,919,057	–	–	3,919,057
Alan McCarthy	–	–	–	–	–
Geoffrey Sam OAM	–	–	–	–	–
Mark Simari	–	–	–	–	–
Brent Stewart	–	–	–	–	–
John Walstab	–	1,022,029	–	–	1,022,029
Josephine De Martino*	–	500,000	–	–	500,000
Stephen Munday**	908,727	–	(381,818)	(526,909)	–
Phil Nicholl	2,395,138	1,129,611	(696,024)	–	2,828,725
	3,303,865	**6,570,697**	**(1,077,842)**	**(526,909)**	**8,269,811**

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

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Transactions with key management personnel and their related parties

	FY23 $
The following transaction occurred with related parties of John Walstab:	
Salaries and other benefits paid to relatives of KMP	340,029

Geoffrey Sam, Director, is a Director for HealtheCare Group Pty Limited. HealtheCare Group Pty Limited is a client of the Group, purchasing $1,987,583 of products during the year. At 30 June 2023, HealtheCare Australia Pty Ltd owes the Group $530,374.

This concludes the remuneration report, which has been audited.

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
22 February 2021	30 September 2023	1,114,458
28 September 2021	30 September 2024	2,660,851
1 July 2022	30 June 2025	2,979,611
29 November 2022	30 June 2025	5,441,086
1 July 2023	30 June 2026	5,699,210
		17,895,216

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

The following ordinary shares of Paragon Care Limited were issued during the year ended 30 June 2023 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
8 July 2022	$0.0000	4,304,088

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2023

Proceedings on behalf of the Company

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

Non-audit services

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

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

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

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor
- 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 decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

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

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

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the Directors

Mark Hooper
Managing Director

29 August 2023
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION

RSM

RSM Australia Partners

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

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

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Paragon Care Limited and its controlled entities for the year ended 30 June 2023, 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

R B MIANO
Partner

Melbourne, Victoria
Dated: 29 August 2023

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

Certified System Quality ISO 9001


PHACO 2
Fluss
8
Vakuum
80
Phaco Leistung
80
Infusion IOP
18
Pedal
ENDE

FINANCIAL STATEMENTS
For the year ended 30 June 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

	Note	FY23 $'000	FY22 $'000
Revenue from continuing operations			
Sale of goods	6	307,630	237,618
Cost of goods sold		(181,314)	(138,610)
Gross margin		**126,316**	**99,008**
Other income			
Other income	7	3,432	2,798
Interest revenue calculated using the effective interest method		381	132
Expenses			
Employee benefits expense	8	(63,991)	(53,643)
Depreciation and amortisation expense	9	(10,295)	(7,938)
Distribution expenses		(7,749)	(6,634)
Marketing expenses		(3,457)	(1,760)
Occupancy expenses		(2,232)	(1,638)
Other expenses	10	(13,975)	(9,910)
Share-based payments expense		(350)	–
Finance costs	11	(7,021)	(6,111)
Profit before other items		21,059	14,304
Other items			
Share-based payments expense – sign-on bonus	48	–	(850)
Acquisition costs	43	(222)	(3,048)
Obsolete inventory write-off		(784)	(3,540)
Fair value gain on derivative liability		745	3,043
Other (write-offs)/write-back – net		53	–
Profit before income tax expense from continuing operations		20,851	9,909
Income tax expense	12	(5,198)	(3,311)
Profit after income tax expense from continuing operations		15,653	6,598
Profit/(loss) after income tax (expense)/benefit from discontinued operations	13	(2,089)	335
Profit after income tax (expense)/benefit for the year		13,564	6,933
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		179	455
Foreign currency translation		(18)	(367)
Other comprehensive income for the year, net of tax		161	88
Total comprehensive income for the year		13,725	7,021
Profit for the year is attributable to:			
Non-controlling interest		2,804	510
Owners of Paragon Care Limited	31	10,760	6,423
		13,564	**6,933**
Total comprehensive income for the year is attributable to:			
Continuing operations		2,804	510
Discontinued operations		–	–
Non-controlling interest		2,804	510
Continuing operations		13,010	6,176
Discontinued operations		(2,089)	335
Owners of Paragon Care Limited		10,921	6,511
		13,725	**7,021**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME CONTINUED

For the year ended 30 June 2023

	Note	FY23 Cents	FY22 Cents
Earnings per share for profit from continuing operations			
Basic earnings per share	47	1.96	1.34
Diluted earnings per share	47	1.92	1.31
Earnings per share for profit/(loss) from discontinued operations			
Basic earnings per share	47	(0.32)	0.07
Diluted earnings per share	47	(0.32)	0.07
Earnings per share for profit			
Basic earnings per share	47	1.64	1.41
Diluted earnings per share	47	1.61	1.38

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	FY23 $'000	FY22 $'000
Assets			
Current assets			
Cash and cash equivalents	14	22,603	46,203
Trade and other receivables	15	39,426	42,921
Inventories	16	63,691	51,454
Other assets	17	5,049	9,196
Financial derivative asset	18	1,880	1,065
Total current assets		**132,649**	**150,839**
Non-current assets			
Investment properties	19	2,167	261
Property, plant and equipment	20	25,299	10,233
Right-of-use assets	21	19,617	20,266
Intangible assets	22	259,064	248,236
Deferred tax	12	9,723	8,600
Total non-current assets		**315,870**	**287,596**
Total assets		**448,519**	**438,435**
Liabilities			
Current liabilities			
Trade and other payables	23	40,737	28,305
Contract liabilities	24	6,156	10,098
Borrowings	25	17,384	22,759
Lease liabilities	26	4,335	3,450
Income tax	12	4,816	460
Employee benefits		6,277	6,609
Vendor conditional payables	27	1,635	1,390
Other liabilities	28	12,211	15,931
Total current liabilities		**93,551**	**89,002**
Non-current liabilities			
Borrowings	25	68,933	73,484
Lease liabilities	26	31,491	31,566
Employee benefits		926	816
Vendor conditional payables	27	1,661	1,443
Total non-current liabilities		**103,011**	**107,309**
Total liabilities		**196,562**	**196,311**
Net assets		**251,957**	**242,124**
Equity			
Issued capital	29	232,297	228,655
Reserves	30	10,552	7,165
Retained earnings	31	–	–
Equity attributable to the owners of Paragon Care Limited		242,849	235,820
Non-controlling interest	32	9,108	6,304
Total equity		**251,957**	**242,124**

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 2023

	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	–	–	6,423	510	6,933
Other comprehensive income for the year, net of tax	–	88	–	–	88
Total comprehensive income for the year	–	88	6,423	510	7,021
Transfer to dividend reserve (Note 30)	–	6,423	(6,423)	–	–
Non-controlling interest acquired on business acquisition (Note 43)	–	–	–	5,794	5,794
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (Note 29)	114,703	–	–	–	114,703
Share-based payments (Note 48)	–	261	–	–	261
Dividends paid (Note 33)	–	(7,173)	–	–	(7,173)
Balance at 30 June 2022	**228,655**	**7,165**	**–**	**6,304**	**242,124**

	Issued capital $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2022	228,655	7,165	–	6,304	242,124
Profit after income tax expense for the year	–	–	10,760	2,804	13,564
Other comprehensive income for the year, net of tax	–	161	–	–	161
Total comprehensive income for the year	–	161	10,760	2,804	13,725
Transfer to dividend reserve (Note 30)	–	10,760	(10,760)	–	–
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (Note 29)	3,642	–	–	–	3,642
Share-based payments (Note 48)	–	352	–	–	352
Dividends paid (Note 33)	–	(7,886)	–	–	(7,886)
Balance at 30 June 2023	**232,297**	**10,552**	**–**	**9,108**	**251,957**

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 2023

	Note	FY23 $'000	FY22 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		331,177	288,996
Payments to suppliers and employees (inclusive of GST)		(307,505)	(263,876)
Other income		3,001	–
Interest received		381	8
Interest and other finance costs paid		(7,021)	(5,479)
Income taxes paid		(2,284)	(617)
Net cash from operating activities	46	**17,749**	**19,032**
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	43	(11,038)	11,681
Payments for property, plant and equipment		(20,779)	(3,118)
Payments for intangibles		(267)	(1,493)
Proceeds from disposal of property, plant and equipment		5	–
Proceeds from release of security deposits		333	–
Net cash from/(used in) investing activities		**(31,746)**	**7,070**
Cash flows from financing activities			
Proceeds from issue of shares	29	425	–
Share issue transaction costs		(19)	(483)
Repayment of borrowings (net)		(9,986)	(7,919)
Repayment of lease liabilities		(5,733)	(3,528)
Proceeds from lease incentives*		13,197	–
Dividends paid		(7,886)	–
Net cash used in financing activities		**(10,002)**	**(11,930)**
Net increase/(decrease) in cash and cash equivalents		(23,999)	14,172
Cash and cash equivalents at the beginning of the financial year		46,203	33,197
Effects of exchange rate changes on cash and cash equivalents		399	(1,166)
Cash and cash equivalents at the end of the financial year	14	**22,603**	**46,203**

* The Group received $13.2 million as contributions towards the fit out of the Mount Waverley facility.

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 2023

Note 1. General information

The financial statements cover Paragon Care Limited as a Group consisting of Paragon Care Limited ('Company', 'parent entity' or 'Paragon Care') 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
Level 4
96-100 Albert Road
South Melbourne VIC 3205

Principal place of business
77-97 Ricketts Road
Mount Waverley VIC 3149

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 29 August 2023. The Directors have the power to amend and reissue the financial statements.

Note 2. Comparatives

Comparatives have been adjusted for the retrospective application of measurement period adjustments on acquisition of Quantum Health Group Limited ('Quantum') in the prior year, in accordance with AASB 3 'Business Combinations'. Refer to Note 43 'Measurement Period Adjustment' for further details.

Note 3. 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 4.

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 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Paragon Care Limited as at 30 June 2023 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.

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.

Revenue from contracts with customers

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 the time-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
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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

Discontinued operations

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

Interest rate swaps

Interest rate swaps are accounted for as cash flow hedge when they qualify for hedge accounting in accordance with AASB 9 'Financial Instruments'. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

Fair value hedges

Fair value hedges are used to cover the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion thereof, that is attributable to a particular risk and could affect profit or loss. The hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit or loss.

Fair value hedge accounting is discontinued if the hedging instrument is sold, terminated, expires, exercised, it no longer meets the criteria for hedge accounting or designation is revoked. Any adjustment to the carrying amount of a hedged financial instrument is amortised to profit or loss using the effective interest rate method. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 periodically 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 owner-occupation. 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 is stated at historical cost less accumulated depreciation and impairment for buildings. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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	1-8 years
Plant and equipment	2-15 years
Motor vehicles	3-5 years.

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

Leasehold improvements 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.

Capital work-in-progress (WIP)

Costs arising directly from capital WIP are recognised as an asset and are not depreciated. The costs are transferred to the relevant class of property, plant and equipment from the time the asset is held ready for use on a commercial basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 6 to 10 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.

Capital work-in-progress (WIP)

Project costs are capitalised once completed and the assets are in use; 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. 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 non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Trade and other payables

Trade and other payables 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.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Borrowings

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

Lease liabilities

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

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

Finance costs

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

Provisions

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

Employee benefits

Short-term incentives

In each full year of employment, short term incentives, in the form of cash bonuses, are paid to selected positions based on agreed targets established at the commencement of the financial year. Achievement of pre-determined key performance indicators are assessed at the end of the period, with payments based on Company discretion and demonstrated performance and STI rules.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 2023. 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 2024 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 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 to clarify that the exemption does not apply to transactions such as leases and decommissioning obligations. These amendments are not expected to have a material impact on the Group.

Note 4. 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 3. 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 3, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 5. Operating segments

Identification of reportable operating segments

Commencing 1 July 2022, the Group is organised into four operating segments: Diagnostic and Scientific, Devices, Capital and Consumables and Service and Technology. These operating segments are 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. There is no aggregation of operating segments.

In prior periods, the Group operated within one operating segment only – Medical Equipment. The Medical Equipment segment supplied durable medical equipment and consumable medical product to hospitals, medical centres and aged care facilities in Australia predominantly. The Group did not have any other reporting segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Diagnostic and Scientific	Segment incorporates blood bank diagnostics manufacturer, clinical pathology diagnostics distribution and scientific and R&D laboratory equipment distribution.
Devices	Segment incorporates ophthalmology and optometry, orthopaedics, pain management, infection prevention and orthobiologics.
Capital and Consumables	Segment incorporates medical, surgical and veterinary services.
Service and Technology	Segment incorporates comprehensive offering from biomedical devices to high end capital equipment, service support and technology management and service partnership with leading brands.

Corporate and Shared Services relates to the corporate running costs of the Group.

Intersegment transactions

Intersegment transactions were made at market rates and are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 30 June 2023 there were no major customers generating over 10% of revenue for the Group (30 June 2022: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Operating segment information (continuing operations)

FY23	Diagnostic and Scientific $'000	Devices $'000	Capital and Consumables $'000	Service and Technology $'000	Corporate and shared services $'000	Total $'000
Revenue						
Sales to external customers	38,336	78,720	95,005	95,569	–	307,630
Other revenue	34	(19)	2,307	(107)	1,217	3,432
Interest revenue	–	1	15	339	26	381
Total revenue	**38,370**	**78,702**	**97,327**	**95,801**	**1,243**	**311,443**
EBITDA	**4,071**	**9,643**	**11,138**	**10,521**	**2,413**	**37,786**
Depreciation and amortisation	(162)	(1,360)	(1,686)	(1,377)	(5,710)	(10,295)
Interest revenue	–	1	15	339	26	381
Finance costs	(4)	(3)	(277)	(329)	(6,408)	(7,021)
Profit/(loss) before income tax expense	**3,905**	**8,281**	**9,190**	**9,154**	**(9,679)**	**20,851**
Income tax expense						(5,198)
Profit after income tax expense						**15,653**
Assets						
Segment assets	45,941	86,128	96,377	149,072	38,675	416,193
Unallocated assets:						
Cash and cash equivalents						22,603
Deferred tax asset						9,723
Total assets						**448,519**
Liabilities						
Segment liabilities	7,742	13,152	21,882	21,637	41,016	105,429
Unallocated liabilities:						
Provision for income tax						4,816
Borrowings						86,317
Total liabilities						**196,562**

FY22

As the Group operated in one operating segment during the period, the information provided in the consolidated statement of profit or loss and other comprehensive income is the same as the operating segment and has not been disclosed here.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Geographical information (continuing and discontinued operations)

	Sales to external customers		Geographical non-current assets	
	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000
Australia	209,701	184,834	299,003	265,791
New Zealand	47,272	42,578	2,307	2,539
Asia	56,328	20,500	4,837	6,773
	313,301	**247,912**	**306,147**	**275,103**

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

Note 6. Revenue

Disaggregation of revenue

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

	FY23 $'000	FY22 $'000
Major product lines		
Diagnostic and Scientific	38,336	29,591
Devices	78,720	68,824
Capital and Consumables	95,005	110,313
Services and Technology	95,569	28,890
	307,630	**237,618**
Timing of revenue recognition		
Goods transferred at a point in time	212,061	208,728
Services transferred over time	95,569	28,890
	307,630	**237,618**

Geographical regions are disclosed in Note 5.

Note 7. Other income

	FY23 $'000	FY22 $'000
Net foreign exchange (loss)/gain	(166)	74
Rental income	505	673
Other income	3,093	2,051
Other income	**3,432**	**2,798**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 8. Employee benefits expense

	FY23 $'000	FY22 $'000
Payroll costs	59,614	50,363
Defined contributions superannuation expense	4,377	3,280
	63,991	**53,643**

Note 9. Depreciation and amortisation expense

	FY23 $'000	FY22 $'000
Depreciation – Land and buildings	36	15
Depreciation – Leasehold improvements	171	187
Depreciation – Plant and equipment	3,635	3,787
Depreciation – Motor vehicles	39	27
Depreciation – Buildings right-of-use assets	3,499	3,072
Amortisation – Website	35	20
Amortisation – Contracts	1,161	301
Amortisation – Software development costs	1,719	529
	10,295	**7,938**

Note 10. Other expenses

	FY23 $'000	FY22 $'000
Management consulting fees	766	878
Professional fees	2,549	1,725
Information technology	3,877	3,344
Travel costs	3,682	1,445
Bad debts and allowance for/(recovery of) expected credit losses	(191)	(169)
Net loss/(gain) on sale of assets	(223)	190
Other corporate costs	3,515	2,497
	13,975	**9,910**

Note 11. Finance costs

	FY23 $'000	FY22 $'000
Interest and finance charges paid/payable on borrowings	5,437	5,150
Loan facility fees and ancillary costs expensed	489	550
Interest and finance charges paid/payable on lease liabilities	1,095	411
	7,021	**6,111**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 12. Income tax

	FY23 $'000	FY22 $'000
Income tax expense		
Current tax	5,842	1,598
Deferred tax – origination and reversal of temporary differences	(1,224)	1,932
Adjustment recognised for prior periods	3	(76)
Aggregate income tax expense	**4,621**	**3,454**
Income tax expense is attributable to:		
Profit from continuing operations	5,198	3,311
Profit/(loss) from discontinued operations	(577)	143
Aggregate income tax expense	**4,621**	**3,454**
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(1,224)	1,932
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense from continuing operations	20,851	9,909
Profit/(loss) before income tax (expense)/benefit from discontinued operations	(2,666)	478
	18,185	**10,387**
Tax at the statutory tax rate of 30%	5,456	3,116
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible costs	431	855
Non-assessable income	(318)	(441)
	5,569	3,530
Adjustment recognised for prior periods	3	(76)
Prior year temporary differences not recognised now recognised	(33)	–
Difference in overseas tax rates	(918)	–
Income tax expense	**4,621**	**3,454**

	FY23 $'000	FY22 $'000
Amounts charged directly to equity		
Deferred tax assets	105	181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

	FY23 $'000	FY22 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	–	1,225
Property, plant and equipment	(942)	(297)
Employee benefits	2,386	2,428
Short-term provisions	281	–
Accrued expenses	2,006	2,662
Right of use asset/lease liability	4,512	341
Intangibles	(1,594)	(2,447)
Inventories	2,277	3,589
Prepayments	(97)	–
Borrowing costs	–	207
Trade and other receivables	212	266
Trade payables	(50)	–
Foreign exchange gains/(losses)	(70)	(23)
Other assets	852	217
Lease incentive capitalised to assets	14	–
Transaction costs	429	751
	10,216	**8,919**
Amounts recognised in equity:		
Derivative financial instruments	(493)	(319)
Deferred tax asset	**9,723**	**8,600**
Movements:		
Opening balance	8,600	10,838
Credited/(charged) to profit or loss	1,224	(1,932)
Charged to equity	(105)	(181)
Additions through business combinations (Note 43)	7	(67)
Unders/overs	(3)	(58)
Closing balance	**9,723**	**8,600**

	FY23 $'000	FY22 $'000
Provision for income tax		
Provision for income tax	**4,816**	**460**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 13. Discontinued operations

Following an extensive strategic review, the Board concluded to discontinue operations at Lovell Surgical Supplies Pty Ltd ('Lovell'). The closure of the Lovell business took place late in the financial year and was based on the changed environment post-pandemic impacting swab production and rising costs of raw materials which impacted the continued viability of this business.

The FY23 loss before tax of $2.7 million includes $0.75 million goodwill write off and an operating loss of $1.9 million less an income tax benefit of $0.6 million has been classified as loss after tax from discontinued operations this year which is disclosed in the financial statements.

The Group is now totally focused on building capabilities in the product verticals of Diagnostic and Scientific, Devices, Capital and Consumables, Services and Technology and on focusing these capabilities into profitable market segments. The company's new head office, manufacturing and warehouse site at Mount Waverley will provide a platform for growth particularly in the In Vitro Diagnostic markets both domestically and export.

Financial performance information

	FY23 $'000	FY22 $'000
Sale of goods	5,671	10,294
Cost of goods sold	(4,570)	(6,470)
Gross profit	**1,101**	**3,824**
Employee benefits expense	(1,808)	(1,336)
Depreciation and amortisation	(320)	(343)
Distribution expenses	(194)	(306)
Marketing expenses	–	(1)
Occupancy expenses	(168)	(106)
Other expenses	(331)	(190)
Obsolete inventory write-off	(203)	(1,064)
Goodwill write-off	(743)	–
Total expenses	**(3,767)**	**(3,346)**
Profit/(loss) before income tax (expense)/benefit	(2,666)	478
Income tax (expense)/benefit	577	(143)
Profit/(loss) after income tax (expense)/benefit from discontinued operations	**(2,089)**	**335**

Cash flow information

	FY23 $'000	FY22 $'000
Net cash from/(used in) operating activities	(597)	1,999
Net cash from/(used in) investing activities	47	(22)
Net cash from financing activities	–	–
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**(550)**	**1,977**

Note 14. Cash and cash equivalents

	FY23 $'000	FY22 $'000
Current assets		
Cash at bank and on hand	**22,603**	**46,203**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 15. Trade and other receivables

	FY23 $'000	FY22 $'000
Current assets		
Trade receivables	36,661	30,483
Less: Allowance for expected credit losses	(1,242)	(1,227)
	35,419	**29,256**
Other receivables	1,031	884
Lease incentive receivable	2,976	12,781
	39,426	**42,921**

Allowance for expected credit losses

The Group has recognised a loss of $15,000 (30 June 2022: $93,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2023.

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	
	FY23 %	FY22 %	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000
Not overdue	–	2%	33,062	28,836	68	435
0 to 3 months overdue	16%	36%	2,900	1,112	475	402
3 to 6 months overdue	100%	60%	219	365	219	221
Over 6 months overdue	100%	100%	480	170	480	169
			36,661	**30,483**	**1,242**	**1,227**

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

	FY23 $'000	FY22 $'000
Opening balance	1,227	708
Additional provisions recognised	15	93
Additions through business combinations	–	426
Closing balance	**1,242**	**1,227**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 16. Inventories

	FY23 $'000	FY22 $'000
Current assets		
Raw materials – at cost	1,471	1,402
Finished goods – at cost	65,520	57,774
Stock in transit – at cost	6,912	5,188
Less: Provision for impairment	(10,212)	(12,910)
	63,691	**51,454**

Provision for impairment

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

	FY23 $'000	FY22 $'000
Balance at the start of the financial year	(12,910)	(11,163)
Increase in provision during the year	(140)	(587)
Additions through business combinations	(105)	(3,673)
Written off against provision	2,943	2,513
Balance at the end of the financial year	**(10,212)**	**(12,910)**

Note 17. Other assets

	FY23 $'000	FY22 $'000
Current assets		
Prepayments	3,319	7,133
Security deposits	1,730	2,063
	5,049	**9,196**

Note 18. Financial derivative asset

	FY23 $'000	FY22 $'000
Current assets		
Forward foreign exchange contracts – cash flow hedges	991	1,065
Interest rate swap contracts – cash flow hedges	889	–
	1,880	**1,065**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 19. Investment properties

	FY23 $'000	FY22 $'000
Non-current assets		
Investment property – Freehold office building, Korea – at cost	2,203	261
Less: Accumulated depreciation	(36)	–
	2,167	**261**
Reconciliation		
Reconciliation of the cost at the beginning and end of the current and previous financial year are set out below:		
Opening cost	261	–
Additions through business combinations (Note 43)	–	261
Disposals	(76)	–
Exchange differences	18	–
Transferred from property, plant and equipment – land and buildings (Note 20)	2,000	–
Depreciation expense	(36)	–
Closing cost	**2,167**	**261**

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

Note 20. Property, plant and equipment

	FY23 $'000	FY22 $'000
Non-current assets		
Land and buildings – at cost	–	2,015
Less: Accumulated depreciation	–	(15)
	–	**2,000**
Leasehold improvements – at cost	4,534	3,318
Less: Accumulated depreciation	(1,380)	(1,209)
	3,154	**2,109**
Plant and equipment – at cost	39,606	33,085
Less: Accumulated depreciation	(31,435)	(27,800)
	8,171	**5,285**
Motor vehicles – at cost	1,669	1,535
Less: Accumulated depreciation	(1,493)	(1,454)
	176	**81**
Capital WIP – at cost	13,798	758
	25,299	**10,233**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 improve-ments $'000	Plant and equipment $'000	Motor vehicles $'000	Capital WIP $'000	Total $'000
Balance at 1 July 2021	–	1,771	4,834	101	758	7,464
Additions	–	520	4,365	–	–	4,885
Additions through business combinations (Note 43)	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	2,109	5,285	81	758	10,233
Additions	–	1,216	6,521	139	13,040	20,916
Disposals	–	–	–	(5)	–	(5)
Transfer to investment properties (Note 19)	(2,000)	–	–	–	–	(2,000)
Depreciation expense	–	(171)	(3,635)	(39)	–	(3,845)
Balance at 30 June 2023	**–**	**3,154**	**8,171**	**176**	**13,798**	**25,299**

Note 21. Right-of-use assets

	FY23 $'000	FY22 $'000
Non-current assets		
Land and buildings - right-of-use	34,242	35,862
Less: Accumulated depreciation	(14,625)	(15,596)
	19,617	**20,266**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 2021	9,032
Additions	12,684
Additions through business combinations (Note 43)	1,629
Lease modifications and early terminations	308
Depreciation expense	(3,387)
Balance at 30 June 2022	20,266
Additions, net of retirement	862
Lease modifications	2,308
Depreciation expense	(3,819)
Balance at 30 June 2023	**19,617**

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

- Note 11 for details of interest on lease liabilities and other lease payments
- Note 26 for lease liabilities and maturity analysis at 30 June 2023
- Consolidated statement of cash flows for repayment of lease liabilities.

Note 22. Intangible assets

	FY23 $'000	FY22 $'000
Non-current assets		
Goodwill – at cost	325,774	311,555
Less: Impairment	(73,442)	(72,699)
	252,332	**238,856**
Website – at cost	242	206
Less: Accumulated amortisation	(200)	(165)
	42	**41**
Customer contracts – at cost	6,317	6,317
Less: Accumulated amortisation	(1,462)	(301)
	4,855	**6,016**
Software development costs – at cost	4,816	3,728
Less: Accumulated amortisation	(3,038)	(1,319)
	1,778	**2,409**
Capital WIP – at cost	57	914
	259,064	**248,236**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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	Customer contracts $'000	Software development costs $'000	Capital WIP $'000	Total $'000
Balance at 1 July 2021	149,001	184	–	1,249	940	151,374
Additions	–	–	–	1,608	–	1,608
Additions through business combinations (Note 43)	89,855	–	6,317	81	–	96,253
Disposals	–	(123)	–	–	(26)	(149)
Amortisation expense	–	(20)	(301)	(529)	–	(850)
Balance at 30 June 2022	238,856	41	6,016	2,409	914	248,236
Additions	–	36	–	–	231	267
Additions through business combinations (Note 43)	14,219	–	–	–	–	14,219
Write-off of assets	(743)	–	–	–	–	(743)
Transfers in/(out)	–	–	–	1,088	(1,088)	–
Amortisation expense	–	(35)	(1,161)	(1,719)	–	(2,915)
Balance at 30 June 2023	**252,332**	**42**	**4,855**	**1,778**	**57**	**259,064**

Changes to comparatives – finalisation of business combination accounting

Refer Note 43 for changes to comparative figures pursuant to finalisation of acquisition accounting for Quantum Health Group Limited.

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). On 1 July 2022, Paragon Care Limited launched its new management and operational structure of the four Pillars of Diagnostic and Scientific, Devices, Capital and Consumables and Services and Technology. Each Pillar has its own leadership team with a General Manager heading up each Pillar.

Consequently, goodwill arising on business combinations has been allocated to the following CGUs based on their relative values:

	FY23 $'000	FY22 $'000
Paragon Care	–	149,001
Quantum	–	89,855
Diagnostic and Scientific	27,501	–
Devices	56,089	–
Capital and Consumables	56,976	–
Services and Technology	111,766	–
	252,332	**238,856**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

The recoverable amount of the four 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 flow projections, the recoverable amount of the CGUs exceed their carrying amount by $318.5 million as at 30 June 2023 as shown below.

	Diagnostic and Scientific $'000	Devices $'000	Capital and Consumables $'000	Services and Technology $'000	Total $'000
Excess of recoverable amount over carrying amount	96,482	33,507	93,381	95,129	318,499

Key assumptions used for the discounted cash flow projections for the CGUs:

	Diagnostic and Scientific %	Devices %	Capital and Consumables %	Services and Technology %
Revenue growth rate (average)	16.00%	8.00%	11.00%	15.00%
Pre-tax discount rate	14.10%	14.10%	14.10%	14.10%
Terminal growth rate	1.25%	1.25%	1.25%	1.25%

The pre-tax discount rate of 14.1% has been used (2022: 13.80%) for all CGUs reflecting the increased general business risk. The Terminal growth rate of 1.25% has been maintained (2022: 1.25%) for all CGUs.

Sensitivity

As disclosed in Note 4, 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 Diagnostic and Scientific, either the average revenue growth rate would need to drop from 16% to 0% or the pre-tax discount rate would need to increase from 14.1% to 36.3% for the recoverable amount to equal the carrying amount.

All things being equal, for Devices, either the average revenue growth rate would need to drop from 8% to 4.6% or the pretax discount rate would need to increase from 14.1% to 19% for the recoverable amount to equal the carrying amount.

All things being equal, for Capital and Consumables, either the average revenue growth rate would need to drop from 11% to 2% or the pre-tax discount rate would need to increase from 14.1% to 26.4% for the recoverable amount to equal the carrying amount.

All things being equal, for Services and Technology, either the average revenue growth rate would need to drop from 15% to 4.8% or the pre-tax discount rate would need to increase from 14.1% to 21.7% 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 23. Trade and other payables

	FY23 $'000	FY22 $'000
Current liabilities		
Trade payables	36,646	23,556
Goods and services tax payable	1,313	1,272
Other payables	2,778	3,477
	40,737	**28,305**

Refer to Note 34 for further information on financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 24. Contract liabilities

	FY23 $'000	FY22 $'000
Current liabilities		
Contract liabilities	**6,156**	**10,098**
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	10,098	2,851
Payments received in advance	21,344	4,187
Additions through business combinations (Note 43)	–	8,694
Transfer to revenue	(25,286)	(5,634)
Closing balance	**6,156**	**10,098**

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was $6,156,000 as at 30 June 2023 ($10,098,000 as at 30 June 2022) and is expected to be recognised as revenue in future periods as follows:

	FY23 $'000	FY22 $'000
Within 12 months	6,089	10,098
Beyond 12 months	67	–
	6,156	**10,098**

Note 25. Borrowings

	FY23 $'000	FY22 $'000
Current liabilities		
Bank loans	–	7,000
Trade finance facility	15,553	13,894
Other loans	1,538	1,792
Hire purchase	293	73
	17,384	**22,759**
Non-current liabilities		
Bank loans	67,600	73,397
Hire purchase	1,333	87
	68,933	**73,484**

Refer to Note 34 for further information on financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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.

Paragon Care has entered into new finance arrangements with NAB and HSBC on 6 February 2023. These facilities now provide Paragon Care with varied term and ancillary facilities for AUD120 million and USD30 million for up to 4 years for core debt. Drawdown on the new facilities commenced on 24 February 2023 following the satisfaction of all pre-conditions.

Financing arrangements

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

	FY23 $'000	FY22 $'000
Total facilities		
Bank loans	139,312	80,397
Trade finance facility	20,000	28,500
Bank guarantees and others	23,418	7,800
Other loans	2,432	2,432
	185,162	**119,129**
Used at the reporting date		
Bank loans	67,600	80,397
Trade finance facility	15,553	13,894
Bank guarantees and others	4,188	3,053
Other loans	1,538	1,792
	88,879	**99,136**
Unused at the reporting date		
Bank loans	71,712	–
Trade finance facility	4,447	14,606
Bank guarantees and others	19,230	4,747
Other loans	894	640
	96,283	**19,993**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 26. Lease liabilities

	FY23 $'000	FY22 $'000
Current liabilities		
Lease liability	**4,335**	**3,450**
Non-current liabilities		
Lease liability	**31,491**	**31,566**

The maturity analysis for lease liabilities is as follows:

	FY23 $'000	FY22 $'000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	2,582	5,132
One to five years	13,719	13,115
More than five years	24,829	25,803
Total undiscounted lease liabilities at 30 June (net of lease incentive)	**41,130**	**44,050**
Lease liabilities included in the statement of financial position		
Lease liabilities included in the statement of financial position at 30 June	35,826	35,016

Note 27. Vendor conditional payables

	FY23 $'000	FY22 $'000
Current liabilities		
Vendor conditional payables	**1,635**	**1,390**
Non-current liabilities		
Vendor conditional payables	**1,661**	**1,443**

Refer to Note 25 and Note 43 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 and Specialist Medical Supplies Pty Ltd, subsidiaries of the Group.

Note 28. Other liabilities

	FY23 $'000	FY22 $'000
Current liabilities		
Accrued expenses	12,211	15,766
Other current liabilities	–	165
	12,211	**15,931**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 29. Issued capital

	FY23 Shares	FY22 Shares	FY23 $'000	FY22 $'000
Ordinary shares – fully paid	659,345,929	644,268,271	232,297	228,655

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 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 43)	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		–	$0.0000	(579)
Balance	30 June 2022	644,268,271		228,655
Issue of shares on vesting of performance rights	26 August 2022	4,304,088	$0.0000	–
Issue of shares as part consideration for the acquisition of Specialist Medical Supplies Pty Ltd business (Note 43)	12 September 2022	7,773,570	$0.3670	2,853
Issue of shares	29 November 2022	1,500,000	$0.2833	425
Issue of shares as sign-on equity to Managing Director	5 April 2023	1,500,000	$0.2550	383
Share issue transaction costs				(19)
Balance	**30 June 2023**	**659,345,929**		**232,297**

Ordinary shares

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Capital risk management

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

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

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The Group is 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 2022 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 Director. 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:

	FY23 $'000	FY22 $'000
Current liabilities – borrowings (Note 25)	17,384	22,759
Non-current liabilities – borrowings (Note 25)	68,933	73,484
Total borrowings	**86,317**	**96,243**
Current assets – cash and cash equivalents (Note 14)	(22,603)	(46,203)
Net debt	63,714	50,040
Total equity	**251,957**	**242,124**
Total capital	**315,671**	**292,164**
Gearing ratio	20%	17%

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

Note 30. Reserves

	FY23 $'000	FY22 $'000
Foreign currency translation reserve	(1,157)	(1,440)
Hedging reserve – cash flow hedges	925	746
Options reserve	682	330
Dividend reserve	10,102	7,529
	10,552	**7,165**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Foreign currency translation reserve

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

Hedging reserve – cash flow hedges

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

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

The reserve is used to transfer profits generated during each reporting period to ensure profits are available for distribution to shareholders in future years.

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 2021	(1,073)	291	69	8,279	7,566
Revaluation – gross	–	758	–	–	758
Deferred tax	–	(303)	–	–	(303)
Foreign currency translation	(367)	–	–	–	(367)
Share-based payments	–	–	261	–	261
Transfer of profit from retained earnings (Note 31)	–	–	–	6,423	6,423
Dividends paid (Note 33)	–	–	–	(7,173)	(7,173)
Balance at 30 June 2022	(1,440)	746	330	7,529	7,165
Revaluation – gross	–	672	–	–	672
Deferred tax	–	(493)	–	–	(493)
Foreign currency translation	(18)	–	–	–	(18)
Share-based payments	–	–	352	–	352
Items reclassified through profit or loss	301	–	–	(301)	–
Transfer of profit from retained earnings (Note 31)	–	–	–	10,760	10,760
Dividends paid (Note 33)	–	–	–	(7,886)	(7,886)
Balance at 30 June 2023	**(1,157)**	**925**	**682**	**10,102**	**10,552**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 31. Retained earnings

	FY23 $'000	FY22 $'000
Retained earnings at the beginning of the financial year	–	–
Profit after income tax (expense)/benefit for the year	10,760	6,423
Transfer to dividend reserve	(10,760)	(6,423)
Retained earnings at the end of the financial year	**–**	**–**

Note 32. Non-controlling interest

	FY23 $'000	FY22 $'000
Reserves	5,794	5,794
Retained earnings	3,314	510
	9,108	**6,304**

Refer to Note 44 for further information.

Note 33. Dividends

Dividends paid during the financial year were as follows:

	FY23 $'000	FY22 $'000
Final dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share	3,939	–
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 2023 of 0.6 cents per ordinary share	3,947	–
Interim dividend for the year ended 30 June 2022 of 0.6 cents per ordinary share	–	3,794
	7,886	**7,173**

Dividend declared

The Directors have declared the payment of a fully franked dividend of 0.6 cents per fully paid ordinary share to be paid on 6 October 2023 in respect of the financial year ended 30 June 2023. The dividend will be paid to all shareholders on the register of members as at the Record Date of 19 September 2023. This dividend has not been included as a liability in these financial statements. As the dividend is fully franked, there are no income tax consequences for the owners of Paragon Care Limited relating to this dividend.

Dividend reinvestment plan

Paragon Care will apply the Dividend Reinvestment Plan ('DRP') to the FY23 full year dividend that enables shareholders to elect to reinvest their dividends into additional shares in Paragon Care. Shares will be issued at the price derived by applying a discount of 5% to the volume weighted average market price of shares sold on the ASX over the 5 trading days commencing on and inclusive of the Ex-Dividend Date (18 September 2023).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Franking credits

	FY23 $'000	FY22 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	22,405	24,693

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

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

Note 34. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, 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 and ageing analysis for credit 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 0% and 100% of anticipated foreign currency transactions for the subsequent 24 months, dependant on when suppliers are payable.

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

	FY23 $'000	FY22 $'000
Forward exchange contracts		
Buy foreign currency (cash flow hedges):		
AUD to USD	24,036	13,134
AUD to Euro	13,168	11,763
NZD to USD	7,515	6,134
NZD to Euro	668	378
	45,387	**31,409**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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

	Assets		Liabilities	
	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000
US dollars	3,882	1,468	10,884	11,156
Euros	22	3	2,980	969
Pound Sterling	–	–	542	–
Japanese yen	–	–	531	–
New Zealand dollars	4,561	12,069	804	718
Swiss Francs	–	–	47	–
China Renminbi	37	10	24	–
South Korea Won	2,298	9,584	3,248	1,048
Thailand Baht	5,062	7,407	2,488	102
Philippine Peso	368	795	84	145
	16,230	**31,336**	**21,632**	**14,138**

The Group had net liabilities denominated in foreign currencies of $5,402,000 (assets of $16,230,000 less liabilities of $21,632,000) (2022: net assets of $17,198,000 (assets of $31,336,000 less liabilities of $14,138,000)) as at 30 June 2023. 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 Group's profit before tax for the year would have been as follows:

	AUD strengthened			AUD weakened		
FY23	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
US dollars	(10%)	700	700	10%	(700)	(700)
Euros	(10%)	296	296	10%	(296)	(296)
Pound Sterling	(10%)	54	54	10%	(54)	(54)
Japanese yen	(10%)	53	53	10%	(53)	(53)
New Zealand dollars	(10%)	(376)	(376)	10%	376	376
Swiss Francs	(10%)	5	5	10%	(5)	(5)
China Renminbi	(10%)	(1)	(1)	10%	1	1
South Korea Won	(10%)	95	95	10%	(95)	(95)
Thailand Baht	(10%)	(257)	(257)	10%	257	257
Philippine Peso	(10%)	(28)	(28)	10%	28	28
		541	**541**		**(541)**	**(541)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

FY22	AUD strengthened % change	AUD strengthened Effect on profit before tax	AUD strengthened Effect on equity	AUD weakened % change	AUD weakened Effect on profit before tax	AUD weakened Effect on equity
US dollars	(10%)	969	969	10%	(969)	(969)
Euros	(10%)	97	97	10%	(97)	(97)
Pound Sterling	–	–	–	–	–	–
Japanese yen	–	–	–	–	–	–
New Zealand dollars	(10%)	(1,135)	(1,135)	10%	1,135	1,135
Swiss Francs	–	–	–	–	–	–
China Renminbi	(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 loss for the year ended 30 June 2023 was $1,697,000 (30 June 2022: gain of $74,000).

Price risk

The Group is not exposed to any significant price risk.

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 $35,000,000 as at 30 June 2023 ($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:

	FY23 Weighted average interest rate %	FY23 Balance $'000	FY22 Weighted average interest rate %	FY22 Balance $'000
Bank loans	4.87%	67,600	4.22%	80,397
Net exposure to cash flow interest rate risk		**67,600**		**80,397**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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

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

	FY23 $'000	FY22 $'000
Financial assets		
Cash and cash equivalents (interest bearing)	22,603	46,203
Derivative asset	889	1,065
	23,492	**47,268**
Financial liabilities		
Interest bearing liabilities – variable rate (current)	(15,553)	(20,894)
Interest bearing liabilities – fixed rate (current)	(1,831)	(1,865)
Interest bearing liabilities – variable rate (non-current)	(32,600)	(6,397)
Interest bearing liabilities – fixed rate (non-current)	(36,333)	(67,087)
	(86,317)	**(96,243)**

For the Group bank loans outstanding, totalling $67,600,000 (30 June 2022: $80,397,000), are principal and interest payment loans. Of this, $35,000,000 (30 June 2022: $67,000,000) is managed under an interest rate swap arrangement, whereby the Group exchanges the bank's floating rate (BBSYbid rate+spread) for a fixed interest rate of 3.5%. The Group has bank loans outstanding subject to variable interest rates of $32,600,000 (30 June 2022: $13,397,000). Monthly cash outlays of approximately $401,000 (30 June 2022: $509,000) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (30 June 2022: 100) basis points would have an adverse/favourable effect on profit before tax of $182,500 (30 June 2022: $204,000) 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 are no longer required (30 June 2022: $7,000,000).

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:

	FY23 $'000	FY22 $'000
Bank loans	71,712	–
Trade finance facility	4,447	14,606
Bank guarantees and others	19,230	4,747
Other loans	894	640
	96,283	**19,993**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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.

FY23	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	–	40,737	–	–	–	40,737
Interest-bearing – variable	4.87%	15,553	–	–	32,600	48,153
Interest-bearing – fixed rate	4.34%	915	915	333	36,000	38,163
Total non-derivatives		**57,205**	**915**	**333**	**68,600**	**127,053**
Derivatives						
Forward foreign exchange contracts	–	925	75	–	–	1,000
Interest rate swap contracts	–	–	893	–	–	893
Total derivatives		**925**	**968**	**–**	**–**	**1,893**

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						
Forward foreign exchange contracts	–	457	169	–	–	626
Interest rate swap contracts	–	–	893	–	–	893
Total derivatives		**457**	**1,062**	**–**	**–**	**1,519**

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 CONTINUED

For the year ended 30 June 2023

Note 35. Fair value measurement

Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability.

FY23	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward foreign exchange contracts and interest rate swap – cash flow hedges	–	1,880	–	1,880
Total assets	**–**	**1,880**	**–**	**1,880**
Liabilities				
Vendor conditional payable	–	–	(3,296)	(3,296)
Total liabilities	–	–	**(3,296)**	**(3,296)**

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)**

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.

Vendor conditional payable represents the obligation to pay additional amounts to vendors in respect of businesses acquired by the Group, subject to certain conditions being met. It is measured at the present value of the estimated liability. The fair value of vendor conditional payable is calculated on the expected future cash outflows. Generally, the vendor conditional payable is a performance based payment. These are reviewed at the reporting date to provide the expected future cash outflows for each contract. Upon completion of the review the future cash outflows are then discounted to present value using the Group's incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 2021	–
Additions through business combinations (Note 43)	(2,626)
Exchange differences	(207)
Balance at 30 June 2022	(2,833)
Additions through business combinations (Note 43)	(770)
Exchange differences	307
Balance at 30 June 2023	**(3,296)**

The level 3 assets and liabilities unobservable inputs and sensitivity are set out below.

Description	Unobservable inputs	Range (weighted average)	Sensitivity
Vendor conditional payables – Quantum Hunex Korea	Profit multiples	45%	10% change in multiple would increase/decrease fair value by $250,000
Vendor conditional payables – Specialist Medical Supplies Pty Ltd	EBITDA multiples	1.5 times	10% change in multiple would increase/decrease fair value by $77,000

Note 36. 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
Alan McCarthy	Non-Executive Director
Geoffrey Sam OAM	Non-Executive Director
Mark Simari	Non-Executive Director (retired 30 November 2022)
Brent Stewart	Non-Executive Director
John Walstab	Executive Director and Executive General Manager Paragon Care Asia.

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:

Josephine De Martino	Chief Financial Officer (appointed 3 October 2022)
Stephen Munday	Former Chief Financial Officer (resigned 28 December 2022)
Phil Nicholl	Chief Executive Officer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Compensation

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

	FY23 $	FY22 $
Short-term employee benefits	2,976,510	1,589,278
Post-employment benefits	129,659	75,211
Share-based payments	615,384	670,551
	3,721,553	**2,335,040**

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

Note 37. Remuneration of auditors

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

	FY23 $	FY22 $
Audit services – RSM Australia Partners		
Audit or review of the financial statements	261,000	242,500
Other services – RSM Australia Partners		
Tax compliance services	254,850	93,750
Other services	23,719	100,750
	278,569	194,500
	539,569	**437,000**
Audit services – network firms		
Audit or review of the financial statements	**139,381**	**128,215**

Note 38. Contingent assets

There were no contingent assets as at 30 June 2023 and 30 June 2022.

Note 39. Contingent liabilities

The Group has given bank guarantees as at 30 June 2023 of $2,625,276 (30 June 2022: $2,919,748).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 40. Commitments

There were no capital commitments as at 30 June 2023 and 30 June 2022.

Note 41. Related party transactions

Parent entity

Paragon Care Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 44.

Key management personnel

Disclosures relating to key management personnel are set out in Note 36 and the Remuneration report included in the Directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	FY23 $	FY22 $
The following transactions occurred with related parties of John Walstab:		
Salaries and other benefits paid to relatives of KMP	340,029	116,253

Geoffrey Sam, Director, is a Director for HealtheCare Group Pty Limited. HealtheCare Group Pty Limited is a client of the Group, purchasing $1,987,583 (30 June 2022: $1,661,462) of products during the year.

Receivable from and payable to related parties

Geoffrey Sam, Director, is a Director for HealtheCare Group Pty Limited. At 30 June 2023, HealtheCare Australia Pty Ltd owes the Group $530,374 (30 June 2022: $283,605).

Loans to/from related parties

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

Terms and conditions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 42. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	FY23 $'000	FY22 $'000
Loss after income tax	(1,784)	(9,200)
Total comprehensive income	**(1,784)**	**(9,200)**

Statement of financial position

	Parent	
	FY23 $'000	FY22 $'000
Total current assets	**202**	**1**
Total assets	**286,869**	**262,767**
Total current liabilities	**5,548**	**1,707**
Total liabilities	**5,548**	**1,707**
Equity		
Issued capital	232,106	228,655
Hedging reserve – cash flow hedges	(165)	–
Options reserve	682	330
Retained earnings	48,698	32,075
Total equity	**281,321**	**261,060**

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 2023 and 30 June 2022.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 3, except for the following:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 43. Business combinations

FY23

Specialist Medical Supplies Pty Ltd

On 1 September 2022, Paragon Care Limited acquired 100% of the ordinary shares of Specialist Medical Supplies Pty Ltd ('SMS') for the total consideration of $16,376,000. The vendors are entitled to an earnout payment based on 1.5 times growth in EBITDA in the first 12 months after acquisition. The acquired business contributed revenues of $9,625,000 and profit after tax of $2,851,000 to the Group for the period from 1 September 2022 to 30 June 2023. If the acquisition occurred on 1 July 2022, the full year contributions would have been revenues of $11,373,000 and profit after tax of $3,261,000. The values identified in relation to the acquisition of SMS are final as at 30 June 2023.

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.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	851
Net working capital excluding cash and cash equivalents	1,307
Net assets acquired	2,158
Goodwill	14,219
Acquisition-date fair value of the total consideration transferred	**16,377**
Representing:	
Cash paid or payable to vendor	11,889
Paragon Care Limited shares issued to vendor	2,853
Vendor conditional payable	770
Vendor conditional payable write-back	865
	16,377
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	16,377
Less: cash and cash equivalents	(851)
Less: vendor conditional payable	(1,635)
Less: shares issued by Company as part of consideration	(2,853)
Net cash used	**11,038**

The fair value of trade receivables is $1,055,000. The gross contractual amount for trade receivables due is $1,055,000, all of which have been collected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

FY22

Quantum Health Group Limited

Effective 16 February 2022, Paragon Care Limited acquired Quantum Health Group Limited ('Quantum') 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 longstanding relationships.

The above business combination that occurred in the previous financial year has now been finalised and detailed below are the final values. The finalisation of business combination accounting in accordance with AASB 3 'Business Combinations' has resulted in a decrease of $2,160,000 in goodwill mainly due to recognition of identifiable intangible assets in the form of customer contracts, additional accruals and resulting deferred taxes.

Details of the acquisition are as follows:

	Provisional values	Measurement	Final values
	Recorded at 30 Jun 2022 $'000	Under AASB 3 finalisation adjustments $'000	Restated at 30 Jun 2022 $'000
Cash and cash equivalents	11,681	–	11,681
Net working capital, excluding cash and cash equivalents	5,027	(1,710)	3,317
Investment property	261	–	261
Property, plant and equipment	2,844	–	2,844
Right-of-use assets	1,629	–	1,629
Intangibles	81	6,317	6,398
Deferred tax asset	2,380	(2,447)	(67)
Other non-current assets	1,926	–	1,926
Vendor conditional payables	(2,626)	–	(2,626)
Borrowings	(2,163)	–	(2,163)
Lease liability	(1,702)	–	(1,702)
Net assets acquired	19,338	2,160	21,498
Goodwill/(discount on acquisition)	92,015	(2,160)	89,855
Acquisition-date fair value of the total consideration transferred	**111,353**	**–**	**111,353**
Representing:			
Paragon Care Limited shares issued to vendor	105,559	–	105,559
Non-controlling interest acquired	5,794	–	5,794
	111,353	**–**	**111,353**
Acquisition costs expensed to profit or loss	**3,048**	**–**	**3,048**
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	111,353	–	111,353
Less: cash and cash equivalents	(11,681)	–	(11,681)
Less: shares issued by Company as part of consideration	(105,559)	–	(105,559)
Less: non-controlling interest acquired	(5,794)	–	(5,794)
Net cash received	**(11,681)**	**–**	**(11,681)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Measurement Period Adjustments

In accordance with AASB 3 Business Combinations, pursuant to finalisation of acquisition accounting of Quantum Health Group Limited in the current year, the Group has recognised adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Consequently, the Group has revised comparative information for prior period presented in financial statements as needed, including making changes to amortisation effects recognised in completing the initial acquisition accounting. The following table shows the changes made to revise the comparative financial information pursuant to measurement period adjustments:

	30 June 2022		
Condensed consolidated statement of financial position	**Current comparatives $'000**	**Reported in prior year $'000**	**Change $'000**
Intangible assets			
Goodwill	238,856	241,016	(2,160)
Customer contracts – cost	6,317	–	6,317
Customer contracts – accumulated amortisation	(301)	–	(301)
Other intangible assets	3,364	3,364	–
	248,236	**244,380**	**3,856**
Deferred tax assets	8,600	11,047	(2,447)
Income tax payable	(460)	(550)	90
Other liabilities	(26,029)	(24,319)	(1,710)
Reserves	7,165	7,376	(211)

	30 June 2022		
Condensed consolidated statement of profit or loss and other comprehensive income	**Current comparatives $'000**	**Reported in prior year $'000**	**Change $'000**
Depreciation and amortisation expense*	(8,281)	(7,980)	(301)
Profit before income taxes*	10,387	10,688	(301)
Income tax expense	(3,454)	(3,544)	90
Profit after income tax expense	6,933	7,144	(211)
Total comprehensive income for the year	7,021	7,232	(211)

* Including discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 44. 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 3:

		Ownership interest	
Name	Principal place of business /Country of incorporation	FY23 %	FY22 %
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 Solutions Pty Ltd	Australia	100%	100%
Surgical Specialties Holdings Pty Ltd	Australia	100%	100%
Surgical Specialties Group Pty Ltd	Australia	100%	100%
Surgical Specialties Pty Ltd	Australia	100%	100%
Therapy Specialties Pty Ltd	Australia	100%	100%
Surgical Specialties (NZ) Ltd	New Zealand	100%	100%
Therapy Specialties 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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

		Ownership interest	
Name	Principal place of business /Country of incorporation	FY23 %	FY22 %
Lovell Surgical Supplies Pty Ltd	Australia	100%	100%
Lovell Surgical Solutions Pty Ltd	Australia	100%	100%
Total Communications (Australia) Pty Ltd	Australia	100%	100%
Quantum Health Group Limited	Australia	100%	100%
Quantum Energy Technologies Pty Ltd	Australia	100%	100%
Quantum Energy Installations Pty Ltd	Australia	100%	100%
Quantum Healthcare Australia Pty Ltd	Australia	100%	100%
Medishop Pty Ltd	Australia	100%	100%
Quantum Solar Power Pty Ltd	Australia	100%	100%
Quantum Energy Technologies (Suzhou) Co Ltd	China	100%	100%
Suzhou Sheerdrop Wine Co Ltd	China	100%	100%
Med-X Healthcare Pty Ltd	Australia	100%	100%
Quantum Healthcare Pty Ltd	Australia	100%	100%
Quantum Healthcare Hong Kong Limited	China	100%	100%
Quantum Holdings Co. Ltd	Korea	100%	100%
Carestream Health Philippines, Inc.	Philippines	100%	100%
Quantum Healthcare NZ Ltd	New Zealand	100%	100%
Quantum Bio Science Co. Ltd	Korea	100%	100%
Quantum Hunex Korea Co. Ltd	Korea	100%	100%
Quantum Healthcare Co. Ltd	Korea	100%	100%
Quantum Legioguard Pty Ltd	Australia	100%	100%
Specialist Medical Supplies Pty Ltd	Australia	100%	–

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in Note 3:

		Parent		Non-controlling interest	
Name	Principal place of business / Country of incorporation	Ownership interest FY23 %	Ownership interest FY22 %	Ownership interest FY23 %	Ownership interest FY22 %
Quantum Healthcare Thailand Co. Ltd	Thailand	49%	49%	51%	51%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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	
	FY23 $'000	FY22 $'000
Summarised statement of financial position		
Current assets	23,801	14,925
Non-current assets	1,904	1,846
Total assets	**25,705**	**16,771**
Current liabilities	7,157	3,457
Non-current liabilities	454	1,074
Total liabilities	**7,611**	**4,531**
Net assets	**18,094**	**12,240**
Summarised statement of profit or loss and other comprehensive income		
Revenue	29,444	8,182
Expenses	(22,586)	(6,894)
Profit before income tax expense	6,858	1,288
Income tax expense	(1,360)	(288)
Profit after income tax expense	5,498	1,000
Other comprehensive income	–	–
Total comprehensive income	**5,498**	**1,000**
Statement of cash flows		
Net cash from operating activities	3,728	1,570
Net cash used in investing activities	(898)	(2,596)
Net cash used in financing activities	(388)	(43)
Net increase/(decrease) in cash and cash equivalents	**2,442**	**(1,069)**
Other financial information		
Profit attributable to non-controlling interests	2,804	510
Accumulated non-controlling interests at the end of reporting period	(9,108)	(6,304)

The comparative 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.

Refer to Note 49 for acquisition of non-controlling interest in Quantum Healthcare (Thailand) Co Ltd in July 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 45. 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	Surgical Specialties Pty Ltd
Paragon Care Group Australia Pty Ltd	Therapy Specialties Pty Ltd
Paragon Care Group Holding Company Pty Ltd	Pergamon Technologies Pty Ltd
Medtek Pty Ltd	Immuno Pty Ltd
REM Systems Pty Ltd	Labgear Australia Pty Ltd
Meditron Pty Ltd	Paragon Medical Pty Ltd
Western Biomedical Pty Ltd	Scanmedics Pty Ltd
Designs For Vision Holdings Pty Ltd	Lovell Surgical Supplies International Pty Ltd
Designs For Vision (Aust) Pty Ltd	Lovell Surgical Supplies Pty Ltd
Designs For Vision Pty Ltd	Lovell Surgical Solutions Pty Ltd
Electro Medical Group Pty Ltd	Total Communications (Australia) Pty Ltd
Midas Software Solutions Pty Ltd	Quantum Health Group Limited
Immulab Pty Ltd	Quantum Energy Technologies Pty Ltd
Insight Surgical Pty Ltd	Quantum Healthcare Australia Pty Ltd
Medtech Solutions Pty Ltd	Medishop Pty Ltd
Surgical Specialties Holdings Pty Ltd	Quantum Solar Power Pty Ltd
Surgical Specialties Group Pty Ltd	Quantum Healthcare Pty Ltd
Specialist Medical Supplies 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 46. Cash flow information

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

	FY23 $'000	FY22 $'000
Profit after income tax (expense)/benefit for the year	13,564	6,933
Adjustments for:		
Depreciation and amortisation	10,615	8,279
Impairment of goodwill	743	–
Write off of obsolete inventory	784	4,604
Net loss on disposal of property, plant and equipment	–	236
Share-based payments	350	850
Allowance for expected credit losses	15	93
Foreign exchange differences	(585)	(935)
Issue of shares as consideration for acquisition costs	–	1,957
Vendor earn-out write-back	(865)	–
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(1,101)	7,400
Decrease/(increase) in inventories	(12,431)	8,292
Decrease in income tax refund due	–	317
Decrease/(increase) in deferred tax assets	(1,116)	2,171
Increase in derivative assets	(815)	(649)
Increase/(decrease) in trade and other payables	4,793	(17,128)
Decrease in derivative liabilities	–	(3,047)
Increase in provision for income tax	4,048	550
Decrease in employee benefits	(250)	(891)
Net cash from operating activities	**17,749**	**19,032**

Non-cash investing and financing activities

	FY23 $'000	FY22 $'000
Additions to the right-of-use assets	862	12,684
Increase in lease liability arising from lease modification	2,308	308
Shares issued under dividend reinvestment plan	–	7,173
Shares issued in relation to business combinations	2,853	105,559
	6,023	**125,724**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 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 43)	–	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
Net cash from/(used in) financing activities	(12,797)	(254)	1,659	(5,733)	(17,125)
Acquisition of leases	–	–	–	5,701	5,701
Increase in lease liability arising from lease modification	–	–	–	2,308	2,308
Balance at 30 June 2023	**67,600**	**1,538**	**15,553**	**37,452**	**122,143**

Note 47. Earnings per share

	FY23 $'000	FY22 $'000
Earnings per share for profit from continuing operations		
Profit after income tax	15,653	6,598
Non-controlling interest	(2,804)	(510)
Profit after income tax	**12,849**	**6,088**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	655,326,539	454,144,365
Adjustments for calculation of diluted earnings per share:		
Performance rights	14,226,025	10,543,023
Weighted average number of ordinary shares used in calculating diluted earnings per share	**669,552,564**	**464,687,388**

	Cents	Cents
Basic earnings per share	1.96	1.34
Diluted earnings per share	1.92	1.31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

	FY23 $'000	FY22 $'000
Earnings per share for profit/(loss) from discontinued operations		
Profit/(loss) after income tax	(2,089)	335
Non-controlling interest	–	–
Profit/(loss) after income tax	**(2,089)**	**335**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	655,326,539	454,144,365
Adjustments for calculation of diluted earnings per share:		
Performance rights*	–	10,543,023
Weighted average number of ordinary shares used in calculating diluted earnings per share	**655,326,539**	**464,687,388**

	Cents	Cents
Basic earnings per share	(0.32)	0.07
Diluted earnings per share	(0.32)	0.07

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

	FY23 $'000	FY22 $'000
Earnings per share for profit		
Profit after income tax	13,564	6,933
Non-controlling interest	(2,804)	(510)
Profit after income tax	**10,760**	**6,423**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	655,326,539	454,144,365
Adjustments for calculation of diluted earnings per share:		
Performance rights	14,226,025	10,543,023
Weighted average number of ordinary shares used in calculating diluted earnings per share	**669,552,564**	**464,687,388**

	Cents	Cents
Basic earnings per share	1.64	1.41
Diluted earnings per share	1.61	1.38

Note 48. Share-based payments

Performance rights

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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

On 1 July 2022, the Company granted 4,279,611 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 29 November 2022, the Company granted 5,441,086 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 7 April 2023, Mark Hooper received 1,500,000 equity shares as sign-on bonus (as part of remuneration) valued at $382,500.

Vesting conditions and important dates

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
- 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
- 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.

The vesting conditions for performance rights granted on 1 July 2022 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price 45c being achieved in the financial year 2023 calculated on a 14-day VWAP
- Tranche 2: One third to vest subject to continuous employment and a minimum share price 55c being achieved in the financial year 2024 calculated on a 14-day VWAP
- Tranche 3: One third to vest subject to continuous employment and a minimum share price 65c being achieved in the financial year 2025 calculated on a 14-day VWAP.

The first vesting date of performance rights issued on 1 July 2022 is 30 June 2023 and will lapse on 30 June 2025 if not vested and exercised.

The vesting conditions for performance rights granted on 29 November 2022 include meeting the following:

- Tranche 1: One third to vest subject to continuous employment and a minimum share price 45c being achieved in the financial year 2023 calculated on a 14-day VWAP
- Tranche 2: One third to vest subject to continuous employment and a minimum share price 55c being achieved in the financial year 2024 calculated on a 14-day VWAP
- Tranche 3: One third to vest subject to continuous employment and a minimum share price 65c being achieved in the financial year 2025 calculated on a 14-day VWAP.

The first vesting date of performance rights issued on 29 November 2022 is 30 June 2023 and will lapse on 30 June 2025 if not vested and exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

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 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:

FY23 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	–	(4,304,088)	(1,116,280)	1,305,368
28/09/2021	28/09/2024	4,798,529	–	–	(1,503,110)	3,295,419
01/07/2022	30/06/2025	–	4,279,611	–	(700,000)	3,579,611
29/11/2022	30/06/2025	–	5,441,086	–	–	5,441,086
		11,713,075	**9,720,697**	**(4,304,088)**	**(3,508,200)**	**13,621,484**

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**

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2 years (30 June 2022: 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
01/07/2022	30/06/2025	$0.2800	$0.1570
01/07/2022	30/06/2025	$0.2800	$0.1630
01/07/2022	30/06/2025	$0.2800	$0.1680
29/11/2022	30/06/2025	$0.3550	$0.1570
29/11/2022	30/06/2025	$0.3550	$0.1630
29/11/2022	30/06/2025	$0.3550	$0.1680

Share-based payments expense

	FY23 $	FY22 $
Share-based payments expense	350	850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2023

Note 49. Events after the reporting period

Business acquisition

Effective 3 July 2023, Paragon Care Limited through one of its subsidiaries, Quantum Healthcare Pty Ltd acquired 100% interest in Carestream Health Japan Co. Ltd ('CSHJ') from Carestream Health International Holdings, Inc. for a consideration USD2,809,603 (AUD4,235,987). The transaction was funded from existing cash balances of USD1,509,603 (AUD2,276,000) and drawdown of USD1,000,000 (AUD1,507,682) from the HSBC facility with the remaining payment due in 12 months of USD300,000 (AUD452,305).

The transaction has been assessed to be a business combination under AASB 3 'Business Combinations' wherein Quantum Healthcare Pty Ltd is the acquirer and CSHJ the acquiree. The effective date of acquisition is 3 July 2023.

CSHJ has four lines of business, being (i) Service Digital X-Ray systems; (ii) Print Media X-Ray; (iii) Dental X-Ray and (iv) Non-Destructive Testing (Industrial). The acquisition extends Paragon Care Limited's existing distribution and service rights for Carestream products currently in Australia, New Zealand and Philippines to now also include Japan.

The initial accounting for the business combination was not finalised at the time the annual financial statements were issued. Accordingly, disclosures relating to fair value of assets acquired and liabilities assumed, and the resultant goodwill have not been made.

Non-controlling interest acquisition

Effective 15 July 2023, Quantum Healthcare Pty Ltd, one of Paragon Care Limited's subsidiaries acquired 100% interest of Quantum Healthcare (Thailand) co. Ltd ('QHT') for a consideration of Thai Baht 95.1 million (AUD4,007,420). This included Thai Baht 90 million of capital investment in the ordinary shares of QHT and a cash payment of Thai Baht 5.1 million (AUD214,909) for purchase of shares from external shareholders. Prior to the additional investment, Quantum Healthcare Pty Ltd had a 49% ownership interest in QHT. The transaction was funded by 100% cash consideration from a drawdown equivalent to Thai Baht 90 million (AUD3,792,511) from the HSBC facility and Thai Baht 5.1 million (AUD214,909) from working capital. The main business lines are Classys aesthetics equipment and Samsung Medison Ultrasound systems.

Apart from the dividend declared as disclosed in Note 33, no other matter or circumstance has arisen since 30 June 2023 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 2023

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 3 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 2023 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 45 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
Managing Director

29 August 2023
Melbourne

AUDITOR'S REPORT

For the year ended 30 June 2023

INDEPENDENT AUDITOR'S REPORT

to the members of Paragon Care Limited

RSM Australia Partners

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

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

www.rsm.com.au

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PARAGON CARE LIMITED

Opinion

We have audited the financial report of Paragon Care Limited ("the Company") and its subsidiaries (together referred to as "the Group") which comprises the consolidated statement of financial position as at 30 June 2023, 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 2023 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.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Paragon Care Limited

Key Audit Matters (Continued)

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Accounting for business combinations
Refer to Note 43 in the financial statements</td></tr>
<tr><td>During the year, the Group acquired 100% of the ordinary shares of Specialist Medical Supplies Pty Ltd ("SMS") for a total consideration of $16.40 million, settled by way of cash consideration of $11.9 million, issue of equity shares of Paragon of $2.9 million and a contingent consideration of $1.6 million.

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 values identified in relation to the acquisition of SMS are final as at 30 June 2023.

In addition, in accordance with AASB 3, the Group finalised the acquisition accounting of Quantum Health Group Limited ("Quantum") that occurred in the previous financial year, resulting in measurement period adjustments, including recognition of identifiable intangible assets in the form of customer contracts, additional accruals and deferred taxes and a corresponding reduction in goodwill of $2.2 million.

The accounting for business combinations was considered a Key Audit Matter as the accounting for these transactions is complex and involves significant judgements in applying the relevant accounting standards.

These matters include the identification of acquirer, determination of the acquisition date, recognition and valuation of consideration paid, the determination of the fair value of the assets acquired and liabilities assumed, identification and valuation of intangible assets acquired the resultant goodwill.</td><td>Our procedures to assess the accounting treatment of the business combinations involved the assistance of our Corporate Finance team where required and included:

• Obtaining and reviewing the share purchase agreements, Deeds, Scheme of Arrangements and other associated documents to understand the key terms and conditions and ensuring that the transactions had been accounted for in accordance with AASB 3 Business Combinations;

• Testing the accuracy of the purchase consideration transferred (including contingent consideration) by reviewing the share purchase agreements, bank statements and issue of equity shares by Paragon;

• Assessing the appropriateness of the fair values of the net assets acquired (including measurement period adjustments) 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;

• Reviewing the reasonableness of the valuation of contingent consideration (including assessing the forecasts used for determining the contingent consideration and comparing these against actual performance where available);

• Reviewing work performed by management on the valuation of intangible assets identified in the acquisition to determine reasonable of inputs used and estimates made; and

• Assessing the disclosures in Note 43 to the financial statements in order to assess compliance with the disclosure requirements of AASB 3.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Paragon Care Limited

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">Impairment of Goodwill
Refer to Note 22 in the financial statements</td></tr>
<tr><td>As at 30 June 2023, the Group had goodwill with a carrying amount of $252 million (approx. 56% of the total assets of the Group) relating to its acquisitions in the current and previous years.

In addition, pursuant to re-organisation of the Group reporting structure effective 1 July 2022, the Group has identified four cash generating units (CGUs) to which goodwill arising on business combinations has been reallocated during the year.

As required by AASB 136 Impairment of Assets, management has performed an impairment assessment over the goodwill balance at 30 June 2023 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. Also, 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.</td><td>Our audit procedures in relation to management's impairment assessment involved the assistance of our Corporate Finance team where required, and included:

• Updating our understanding of management's annual impairment testing process;

• Holding discussions with senior management, reviewing the Group's ASX announcements and reading minutes of directors' meetings to gather sufficient information regarding the operations of the current period, as well as the expectations going forward;

• Assessing the reasonableness of management's determination that the goodwill should be allocated to four CGUs based on the nature of the Group's business and the manner in which results are monitored and reported;

• Reviewing the reasonableness of management's calculations on the reallocation of goodwill to the four CGUs;

• 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 22 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.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Paragon Care Limited

RSM

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed this matter
Inventory Valuation, including provision for inventory obsolescence Refer to Note 16 in the financial statements	
The Group's inventory balance, as disclosed in Note 16, 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 $10.2 million (2022: $12.9 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.	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.
Recognition of Revenue Refer to Note 6 in the financial statements	
The Group's revenue from continuing operations for the year ended 30 June 2023 was $307.6 million. Whilst revenue recognition does not involve significant management estimates or judgements, it is considered a Key Audit Matter because of its significance to the Group's reported financial performance. The risk is heightened due to having distinct product lines within the medical equipment business (diagnostics, capital and consumables, devices, services and technology) across different accounting systems. Revenue recognition can be impacted by a failure to correctly measure revenue in accordance with applicable accounting standards and/or by applying an incorrect approach to period end cut-off.	Our audit procedures in relation to revenue recognition included: • Assessing whether the Group's revenue recognition policies were in compliance with the requirements of AASB 15 *Revenues from Contracts with Customers;* • Evaluating and testing the operating effectiveness of key controls related to revenue recognition; • Reviewing any large or unusual transactions close to the end of the financial year; • Conducting a combination of tests of controls, substantive analytical procedures and tests of details in respect of revenue related transactions; and • Reviewing disclosures in relation to impact on adoption of AASB 15 and the disaggregation of revenues in the financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Paragon Care Limited

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 2023, 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 CONTINUED

to the members of Paragon Care Limited

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 2023.

In our opinion, the Remuneration Report of Paragon Care Limited, for the year ended 30 June 2023, 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

Miano

R B MIANO
Partner

Melbourne, Victoria
Dated: 29 August 2023

SHAREHOLDER INFORMATION

For the year ended 30 June 2023

SHAREHOLDER INFORMATION

30 June 2023

The shareholder information set out below was applicable as at 22 August 2023.

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	1,036	407,575	0.06
1,001 to 5,000	1,943	5,399,800	0.82
5,001 to 10,000	869	6,677,296	1.01
10,001 to 100,000	1,965	64,710,268	9.81
100,001 and over	432	582,150,990	88.30
	6,245	**659,345,929**	**100.00**

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

	Total holders	Number of performance rights	%
1 to 1,000	–	–	–
1,001 to 5,000	–	–	–
5,001 to 10,000	–	–	–
10,001 to 100,000	–	–	–
100,001 and over	36	17,895,216	100.00
	36	**17,895,216**	**100.00**

SHAREHOLDER INFORMATION CONTINUED

30 June 2023

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
MR JOHN WALSTAB	124,460,317	18.88
PIONEER PHARMA AUSTRALIA PTY LTD	53,297,068	8.08
CITICORP NOMINEES PTY LIMITED	34,688,468	5.26
FIRST SAMUEL LTD ACN 086243567 (ANF ITS MDA CLIENTS A/C)	28,703,046	4.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,859,397	4.23
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	22,319,120	3.39
NATIONAL NOMINEES LIMITED	16,669,778	2.53
BERNE NO 132 NOMINEES PTY LTD (737539 A/C)	16,567,378	2.51
NATIONAL NOMINEES LIMITED	16,069,332	2.44
MR YOUNG CHUN KIM	10,692,000	1.62
MR PHILLIP SIDNEY	10,627,809	1.61
REALM GROUP PTY LIMITED	7,520,575	1.14
BNP PARIBAS NOMS PTY LTD (DRP)	5,316,943	0.81
JMT INVESTMENT GROUP VIC PTY LTD (JOHN TURNER SUPER FUND A/C)	5,000,000	0.76
NEGRONI HOLDINGS PTY LTD (THE DFN A/C)	4,727,531	0.72
MRS SANDRA JOAN MCDONALD & MR ANDREW MCDONALD (MCDONALD FAMILY S/FUND A/C)	4,502,524	0.68
DIXSON TRUST PTY LIMITED	4,143,800	0.63
JMT INVESTMENT GROUP VIC PTY LTD	4,000,000	0.61
MR RICHARD ALBARRAN	3,942,129	0.60
MR DREW TOWNSEND	3,942,128	0.60
	405,049,343	**61.45**

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:

	Ordinary shares	
	Number held	% of total shares issued
Mr John Walstab	125,075,109	18.97
Pioneer Hong Kong Group and the List	53,297,068	8.08

SHAREHOLDER INFORMATION CONTINUED

30 June 2023

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 1,717,404 at $0.220 per share as at 23 August 2023):

	Total holders	Number of shares	%
Fully paid ordinary shares			
Holdings less than a marketable parcel	1,840	1,717,404	0.29

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.

Unquoted performance rights

Unquoted performance rights do not carry any voting rights.

There are no other classes of equity securities.

Additional shareholder information

The 2023 Annual General Meeting will be held on Tuesday, 21 November 2023 at 1 pm (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 dispatch.

In accordance with rule 3.5(c) of the Company's constitution, the Closing Date for Nomination of Director is Tuesday, 10 October 2023. Any nomination must be received in writing no later than 5.00pm (Melbourne time) on Tuesday, 10 October 2023 at the Company's Registered Office.

CORPORATE DIRECTORY

30 June 2023

Directors	Shane Tanner – Chairman Mark Hooper Alan McCarthy Geoffrey Sam OAM Brent Stewart John Walstab
Company secretaries	Melanie Leydin Claire Newstead-Sinclair
Registered office	Level 4 96-100 Albert Road South Melbourne VIC 3205 Telephone: 1300 369 559 Telephone: (03) 8833 7800 Facsimile: (03) 8833 7890
Principal place of business	77-97 Ricketts Road Mount Waverley VIC 3149
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 PO Box 13006 Law Courts Melbourne 8010
Bankers	National Australia Bank HSBC Bank Australia
Stock exchange listing	Paragon Care Limited shares are listed on the Australian Securities Exchange (ASX code: PGC)
Website	www.paragoncare.com.au
Corporate Governance Statement	The Directors and management are committed to conducting the business of Paragon Care Limited in an ethical manner and in accordance with the highest standards of corporate governance. Paragon Care Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations. The Company's FY23 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: https://paragoncare.com.au/corporate-governance

ParagonCare

Enabling Healthcare

paragoncare.com.au