

1. Company details

Name of entity:	Paragon Care Limited
ABN:	76 064 551 426
Reporting period:	For the half-year ended 31 December 2021 ('HY22')
Previous period:	For the half-year ended 31 December 2020 ('HY21')

2. Results for announcement to the market

	HY22 \$'000	HY21 \$'000	Change from HY21 %
Revenue	111,283	115,012	(3%)
Profit/(loss) after tax	5,381	5,196	4%
Basic earnings per share	1.56	1.54	1%
Diluted earnings per share	1.52	1.54	(1%)
Net tangible assets per share	(6.75)	(9.93)	32%

Dividends

In keeping with Directors confidence in Paragon Care, the directors have declared the payment of a fully franked interim dividend of 0.6 cents per fully paid ordinary share to be paid on 26th of April 2022 in respect of the financial half year ended 31 December 2021. The dividend will be paid to all shareholders on the register of members as at the Record Date of 22nd of March 2022. This dividend has not been included as a liability in these financial statements.

The dividend is 0.6 cents per fully paid ordinary share for the first half of the 2022 financial year. Whilst this represents a 70% payout of Paragon Care first half NPAT it only represents a 41% payout of the Merger NPAT calculated by combining Quantum's Half year NPAT (from its management accounts) and Paragon Care audited NPAT which is within the 40% to 60% company dividend payment policy. The Directors are confident that this combined with a final dividend will be within the 40% to 60% company dividend payment policy for the full year.

On 1 October 2021 a fully franked final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share was paid which amounted to \$3.379 million in total. The dividend was paid via a fully underwritten Dividend Reinvestment Scheme offering in which 13,515,407 shares were issued. The tax rate for franking credits was 30%.

Dividend reinvestment plan

Paragon Care operates a dividend reinvestment plan (DRP) that enables shareholders to elect to reinvest all, or up to a portion of, their dividends into additional shares in Paragon. Shares will be issued at the lower of 36.5 cents per share and 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 (21st of March 2022), subject to the discretion of the Board to determine the market price in certain circumstances.

Comments on first Half Performance

	HY22 \$'000	HY21 \$'000	Change from HY21 %
Revenue from continuing operations	111,283	115,012	(3%)
Cost of goods sold	(64,552)	(70,522)	8%
Gross profit	46,731	44,490	5%
<i>Gross profit margin %</i>	<i>42.0%</i>	<i>38.7%</i>	
Other income	1,704	1,497	
Operating expenses	(34,315)	(31,263)	
Earnings before interest, tax, depreciation and amortisation from continuing operations	14,120	14,724	(4%)
Depreciation and amortisation	(3,208)	(3,107)	
Earnings before interest and tax	10,912	11,617	
Interest expense	(3,224)	(3,825)	
Profit before tax	7,688	7,792	
Tax expense	(2,307)	(2,596)	
Profit after tax attributable to owners	5,381	5,196	

Key highlights from the results include:

- Improved gross profit margins and NPAT:** Revenue stabilised in 1H FY22 at \$111.3m, down by 3% on 1H FY21, which was a solid result in a business environment which continued to be challenging due to COVID-19 related lockdowns and business disruptions. However, profitability increased in 1H FY22 due to an increase in gross profit margins to 42% (up from 38.7% in 1H FY21) and NPAT increased to \$5.4m in 1H FY22, up 4% on 1H FY21.
- Merger with Quantum Health finalised:** Paragon Care and Quantum Health Group officially combined operations on 16th February 2022 to create a leading medical distribution business across Australia, New Zealand and South-East Asia. Pro-forma results in 1H FY22 for the combined entity show revenue of \$137.7m and EBITDA of \$19.4m⁽¹⁾.
- New CEO and Group Managing Director:** In December 2021, Paragon Care announced the appointment of Mark Hooper as Chief Executive Officer and Group Managing Director. Mark Hooper ended his former role as CEO of Sigma Healthcare (ASX:SIG) on 31 December 2021 and will commence his role with Paragon Care on 5 April 2022.
- Two new Directors appointed:** John Walstab (Executive Director) and Alan McCarthy (Non-Executive Director) joined the Board of Paragon Care, effective 16th February 2022.
- Interim dividend declared:** A fully franked interim dividend of 0.6cps has been declared, with a record date of 22 March 2022, to be paid on 26 April 2022. Whilst this represents a 70% payout of Paragon Care 1H NPAT, it represents a 41% payout of the merged pro-forma NPAT⁽¹⁾.

(1) Note that the pro-forma numbers are unaudited and reflect the simple addition of both companies for the Profit & Loss, based on Quantum Health management accounts.

Merger with Quantum Health to create leading medical distribution business

In November 2021, Paragon Care announced that it entered into a scheme implementation deed to merge with ASX-listed healthcare distributor, Quantum Health Group Limited (ASX:QTM) by way of an all scrip Scheme of Arrangement between Quantum and its shareholders. This merger was approved by the courts on 2 February 2022 and the businesses will officially combine operations during this month.

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

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

Upon implementation of the merger, Paragon Care shareholders will own approximately 56% and Quantum shareholders will own approximately 44% of the merged entity.

Proforma 1H FY22 results for the merged entity

	1H FY22
Revenue	\$137.7m
EBITDA	\$19.4m
NPAT	\$9.1m
Operating cash flow	\$9.4m
Net debt	\$60.3m
Net debt/equity	22%

Upon the successful implementation of the merger on 16th February, John Walstab was appointed to the Paragon Board as an Executive Director and Alan McCarthy joined as a Non-Executive Director.

John Walstab was the Group Managing Director and CEO of Quantum Health Group and he has nearly 40 years' experience in medical equipment distribution across Australia and Asia. Mr Walstab was the founder of InSight Oceania (Quantum Healthcare) and he joined the Board of Quantum Health Group in 2003. Prior to that, Mr Walstab was the Managing Director of ATL Australia (Philips Medical Systems ANZ). Mr Walstab has overseen the growth of Quantum Health Group over the past 18 years.

Alan McCarthy was a Non-Executive Director of Quantum Health Group and he has over 30 years' experience spanning public health and private health services across the Asia Pacific region. Mr McCarthy's prior roles include the CEO at Alpenglow Australia and New Zealand, Managing Director of Philips (ANZ), Vice-President at CareFusion, Country Manager ANZ at Cardinal Health and General Manager of Diagnostic Imaging at Mayne Health/Health Care of Australia. Mr McCarthy is currently a Non-Executive Director of Q Scan and RHC Group Ltd and the CEO of AdvaHealth Solutions.

Appointment of new CEO and Group Managing Director

In December 2021, Paragon Care announced the appointment of Mark Hooper as Chief Executive Officer and Group Managing Director. Mark Hooper ended his former role as CEO of Sigma Healthcare (ASX:SIG) on 31 December 2021 and will commence his role with Paragon Care on 5 April 2022.

Mr Hooper was appointed Managing Director & CEO of Sigma in August 2010 and over the past decade he has led the Sigma business through a major divestment of the Pharmaceutical division and several acquisitions, as well as a major internal transformation project to generate operating efficiencies of over \$100m, and the renewal of Sigma's national distribution centre network.

New strategic partnership with Centuria Healthcare

In November 2021, Paragon Care entered into a strategic partnership with Centuria Healthcare for the long-term lease of a state-of-the-art clean room facility, laboratories, and office complex in the Monash precinct located in the Eastern suburbs of Melbourne.

Centuria will take possession of the property in April 2022 and will fund the upgrade of the facilities to Paragon specifications with works to be completed by December 2022. This new facility will enable Paragon to expand its laboratories that manufacture Immulab's world-leading blood reagent products to meet future demand in Asia with minimal upfront capital cost.

Centuria Healthcare is part of the wider ASX-200 listed Centuria Capital Group (ASX:CNI), which has more than \$18 billion of funds under management. Centuria Healthcare is a specialist funds manager of healthcare real estate assets across Australia, with a portfolio of 56 high-quality assets worth approximately \$1.3 billion.

1H FY22 Paragon Care Statutory Results

	1H FY22	1H FY21	Δ
Revenue	\$111.3m	\$115.0m	↓ 3%
EBITDA	\$14.1m	\$14.7m	↓ 4%
NPAT	\$5.4m	\$5.2m	↑ 4%
Operating cash flow	\$3.9m	\$15.5m	↓ \$11.6m
Net debt	\$69.3m	\$76.3m	↓ 9%
EPS (Basic earnings per share)	1.56 cps	1.54 cps	↑ 1%
Dividend per share	0.6cps	N/A	

1H FY22 Financial Results – Commentary

Paragon Care delivered a solid financial performance in 1H FY22 with stable revenues of \$111.3m, down 3% on pcp, and a 4% increase in NPAT to \$5.4m. This was a pleasing result in difficult operating conditions given the ongoing COVID-19 related business disruptions through 1H FY22. The diversification of revenues across product lines and geographies has continued to underpin revenue stability.

There was a significant improvement in gross profit margins in 1H FY22 to 42%, up from 38.7% in 1H FY21, due to a higher margin product mix, as well as the positive impact of a well-executed foreign exchange management strategy.

Earnings before interest, tax, depreciation and amortization ("EBITDA") decreased slightly to \$14.1m in 1H FY22, a 4% decrease compared with the prior year. Employment costs increased in 1H FY22, due to the \$2.9m JobKeeper subsidy which reduced employment costs in 1H FY21. The stabilisation of EBITDA in 1H FY22 reflects the business-as-usual disciplined approach to cost control.

The net profit after tax result of \$5.4m, up 4% on pcp, reflects a \$600K interest saving due to the rationalization of banking facilities in 2H FY21. Earnings per share in 1H FY22 was 1.56 cents.

Operating cash flow decreased to \$3.9m in 1H FY22, down from \$15.5m on pcp. In 1H FY21, a \$5m cash receipt from JobKeeper was received and there was a one-off cash boost from an improvement in the working capital cycle. In addition, inventories have increased in 1H FY22 due to supply chain disruptions. In 2H FY22, operating cash flow will be aligned with earnings when trading conditions are normalised post COVID-19.

Net debt decreased by 9% in 1H FY22 to \$69.3m as at 31 December 2021, down from \$76.3m at the same time last year. The Company's net debt to equity ratio improved to 35% at year-end, down from 36% last year, and interest cover has improved materially. The amortisation of debt resumed with \$4.5m repaid in 1H FY22.

Paragon Care Chair, Shane Tanner said, "We are pleased with the underlying performance and improved profitability of the Paragon Care business in the first half, despite the continuation of difficult business conditions. This solid foundation ensures that the combined entity, following the merger with Quantum Health, has a strong pathway to growth across Australia, New Zealand and South-East Asia. We are now focused on integrating the two businesses and identifying growth opportunities to leverage the combined product offering and across the larger customer network."

3. Additional information

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' report and the consolidated financial statements for the half-year ended 31 December 2021.

4. Audit qualification or review

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

5. Authority for release

Authorised for release by the Board of Directors

28 February 2022

For personal use

Paragon Care Limited

ABN 76 064 551 426

Interim Report - 31 December 2021

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Paragon Care Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021 ('HY22').

Directors

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

Shane Tanner	Non-Executive Chairman
Geoffrey Sam OAM	Non-Executive Director
Brent Stewart	Non-Executive Director
Mark Simari	Non-Executive Director
Xinzhou Paul Li	Non-Executive Director (resigned 2 September 2021)
John Walstab	Executive Director (appointed 16 February 2022)
Alan McCarthy	Non-Executive Director (appointed 16 February 2022)

Principal activities

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

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

Review of operations

The profit for the Group after providing for income tax amounted to \$5,381,000 (31 December 2020 ('HY21'): \$5,196,000)

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

	HY22 \$'000	HY21 \$'000	Change from HY21 %
Revenue	111,283	115,012	(3%)
Cost of sales	(64,552)	(70,522)	8%
Gross profit	46,731	44,490	5%
<i>Gross profit margin %</i>	<i>42.0%</i>	<i>38.7%</i>	
Other income	1,704	1,497	14%
Operating expenses	(34,315)	(31,263)	(10%)
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	14,120	14,724	(4%)
Depreciation and amortisation	(3,208)	(3,107)	(3%)
Interest expense	(3,224)	(3,825)	16%
Profit before tax	7,688	7,792	(1%)
Tax expense	(2,307)	(2,596)	11%
Profit after tax	5,381	5,196	4%

Key highlights from the results include:

- **Improved gross profit margins and NPAT:** Revenue stabilised in 1H FY22 at \$111.3m, down by 3% on 1H FY21, which was a solid result in a business environment which continued to be challenging due to COVID-19 related lockdowns and business disruptions. However, profitability increased in 1H FY22 due to an increase in gross profit margins to 42% (up from 38.7% in 1H FY21) and NPAT increased to \$5.4m in 1H FY22, up 4% on 1H FY21.
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Upon implementation of the merger, Paragon Care shareholders will own approximately 56% and Quantum shareholders will own approximately 44% of the merged entity.

Proforma 1H FY22 results for the merged entity

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Net debt	\$69.3m	\$76.3m	↓ 9%
EPS (Basic earnings per share)	1.56 cps	1.54 cps	↑ 1%
Dividend per share	0.6cps	N/A	

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Paragon Care delivered a solid financial performance in 1H FY22 with stable revenues of \$111.3m, down 3% on pcp, and a 4% increase in NPAT to \$5.4m. This was a pleasing result in difficult operating conditions given the ongoing COVID-19 related business disruptions through 1H FY22. The diversification of revenues across product lines and geographies has continued to underpin revenue stability.

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Earnings before interest, tax, depreciation and amortization ("EBITDA") decreased slightly to \$14.1m in 1H FY22, a 4% decrease compared with the prior year. Employment costs increased in 1H FY22, due to the \$2.9m JobKeeper subsidy which reduced employment costs in 1H FY21. The stabilisation of EBITDA in 1H FY22 reflects the business-as-usual disciplined approach to cost control.

The net profit after tax result of \$5.4m, up 4% on pcp, reflects a \$600K interest saving due to the rationalization of banking facilities in 2H FY21. Earnings per share in 1H FY22 was 1.56 cents.

Operating cash flow decreased to \$3.9m in 1H FY22, down from \$15.5m on pcp. In 1H FY21, a \$5m cash receipt from JobKeeper was received and there was a one-off cash boost from an improvement in the working capital cycle. In addition, inventories have increased in 1H FY22 due to supply chain disruptions. In 2H FY22, operating cash flow will be aligned with earnings when trading conditions are normalised post COVID-19.

Net debt decreased by 9% in 1H FY22 to \$69.3m as at 31 December 2021, down from \$76.3m at the same time last year. The Company's net debt to equity ratio improved to 35% at year-end, down from 36% last year, and interest cover has improved materially. The amortisation of debt resumed with \$4.5m repaid in 1H FY22.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial half-year

Scheme Implementation Deed

During the period the Group entered into a scheme implementation deed to merged with Quantum Healthcare Limited ('Quantum') by way of a Scheme of Arrangement. The details of the scheme and anticipated impact can be found in the Scheme Booklet release on the ASX announcements platform (<https://www2.asx.com.au/markets/trade-our-cash-market/announcements.pgc>) on 21 December 2021. On 1 February 2022 the Supreme Court of New South Wales made orders approving the Scheme which came into effect on 2 February 2022. On 16 February 2022, Quantum shareholders were issued in total with 274,178,624 Paragon Care Limited ordinary shares for 100% of the issued capital of Quantum.

Leases

As part of its ongoing warehouse rationalisation activities, Paragon Care has entered into to an arrangement on 26 November 2021 for lease of office spaces and warehouse for a period of fifteen years with an objective to consolidate all of its Victorian operations over the next twelve to eighteen months. The lease is expected to commence in April 2022 with rental commencing after a six-month rent-free period in October 2022. The lease arrangement also covers a works incentive of up to \$14 million towards cost of fit-outs and other improvements. The arrangement will result in recognition of right-of-use asset of approximately \$26 million and an equivalent lease liability upon commencement of the lease.

Other than the dividend as declared below, no other matter or circumstance has arisen since 31 December 2021 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.

Dividends

In keeping with Directors confidence in Paragon Care, the directors have declared the payment of a fully franked interim final dividend of 0.6 cents per fully paid ordinary share to be paid on 26th of April 2022 in respect of the financial half year ended 31 December 2021. The dividend will be paid to all shareholders on the register of members as at the Record Date of 22nd of March 2022. This dividend has not been included as a liability in these financial statements.

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Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors



Shane Tanner
Chairman

28 February 2022
Melbourne

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Paragon Care Limited and its controlled entities for the half year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



RSM AUSTRALIA PARTNERS



M PARAMESWARAN

Partner

Melbourne, Victoria

Dated: 28 February 2022

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	Note	Group HY22 \$'000	Group HY21 \$'000
Revenue			
Sale of goods	4	111,283	115,012
Cost of goods sold		(64,552)	(70,522)
Gross profit		46,731	44,490
Other income		404	985
Interest revenue calculated using the effective interest method		-	12
Fair value gain on derivative liability		1,300	500
Expenses			
Employee benefits expense	5	(25,801)	(21,572)
Depreciation and amortisation expense		(3,208)	(3,107)
Distribution expenses		(3,184)	(3,082)
Marketing expenses		(373)	(360)
Occupancy expenses		(734)	(823)
Other expenses	6	(4,223)	(5,426)
Finance costs		(3,224)	(3,825)
Profit before income tax expense		7,688	7,792
Income tax expense		(2,307)	(2,596)
Profit after income tax expense for the half-year attributable to the owners of Paragon Care Limited		5,381	5,196
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges transferred to profit or loss, net of tax		93	(982)
Foreign currency translation		(174)	(3)
Other comprehensive income for the half-year, net of tax		(81)	(985)
Total comprehensive income for the half-year attributable to the owners of Paragon Care Limited		5,300	4,211
		Cents	Cents
Basic earnings per share	13	1.56	1.54
Diluted earnings per share	13	1.52	1.54

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

	Note	Group HY22 \$'000	FY21 \$'000
Assets			
Current assets			
Cash and cash equivalents		28,415	33,197
Trade and other receivables	7	19,979	26,201
Inventories		53,301	51,578
Income tax refund due		289	407
Other assets		1,632	1,413
Financial derivative asset		510	416
Total current assets		<u>104,126</u>	<u>113,212</u>
Non-current assets			
Property, plant and equipment		8,252	7,464
Right-of-use assets		7,259	9,032
Intangibles		150,502	151,374
Deferred tax		8,888	10,838
Total non-current assets		<u>174,901</u>	<u>178,708</u>
Total assets		<u>279,027</u>	<u>291,920</u>
Liabilities			
Current liabilities			
Trade and other payables		26,625	36,100
Borrowings	8	20,170	21,794
Lease liabilities		3,256	3,648
Derivative financial instruments		1,750	3,047
Employee benefits		5,552	4,901
Other liabilities		11,441	12,720
Total current liabilities		<u>68,794</u>	<u>82,210</u>
Non-current liabilities			
Borrowings	8	77,512	80,471
Lease liabilities		5,289	7,098
Employee benefits		641	623
Total non-current liabilities		<u>83,442</u>	<u>88,192</u>
Total liabilities		<u>152,236</u>	<u>170,402</u>
Net assets		<u>126,791</u>	<u>121,518</u>
Equity			
Issued capital	9	117,166	113,952
Reserves	10	9,625	7,566
Retained earnings		-	-
Total equity		<u>126,791</u>	<u>121,518</u>

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

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	202,718	(1,671)	(88,766)	112,281
Profit after income tax expense for the half-year	-	-	5,196	5,196
Other comprehensive income for the half-year, net of tax	-	(985)	-	(985)
Total comprehensive income for the half-year	-	(985)	5,196	4,211
Transfer to dividend reserve	-	5,196	(5,196)	-
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	30	-	30
Balance at 31 December 2020	<u>202,718</u>	<u>2,570</u>	<u>(88,766)</u>	<u>116,522</u>

Group	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2021	113,952	7,566	-	121,518
Profit after income tax expense for the half-year	-	-	5,381	5,381
Other comprehensive income for the half-year, net of tax	-	(81)	-	(81)
Total comprehensive income for the half-year	-	(81)	5,381	5,300
Transfer to dividend reserve (note 10)	-	5,381	(5,381)	-
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 9)	3,214	-	-	3,214
Share-based payments	-	138	-	138
Dividends paid (note 11)	-	(3,379)	-	(3,379)
Balance at 31 December 2021	<u>117,166</u>	<u>9,625</u>	<u>-</u>	<u>126,791</u>

Note	Group	
	HY22 \$'000	HY21 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	129,880	131,923
Payments to suppliers and employees (inclusive of GST)	(123,329)	(115,250)
Government assistance received (JobKeeper subsidy)	-	2,985
Other income	404	836
Interest received	-	12
Interest and other finance costs paid	(2,841)	(3,825)
Income taxes paid	(248)	(1,140)
Net cash from operating activities	<u>3,866</u>	<u>15,541</u>
Cash flows from investing activities		
Payment for vendor earn out of prior business acquisitions	-	(14,264)
Payments for property, plant and equipment	(1,547)	(2,178)
Payments for intangibles	(160)	(1,040)
Payments for security deposits	-	(161)
Proceeds from disposal of property, plant and equipment	-	1,838
Net cash used in investing activities	<u>(1,707)</u>	<u>(15,805)</u>
Cash flows from financing activities		
Share issue transaction costs	(157)	-
Proceeds from borrowings (net)	-	4,760
Repayment of borrowings (net)	(4,527)	-
Repayment of lease liabilities	(2,257)	(2,416)
Net cash from/(used in) financing activities	<u>(6,941)</u>	<u>2,344</u>
Net increase/(decrease) in cash and cash equivalents	(4,782)	2,080
Cash and cash equivalents at the beginning of the financial half-year	<u>33,197</u>	<u>24,505</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>28,415</u></u>	<u><u>26,585</u></u>

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

Note 1. General information

The financial statements cover Paragon Care Limited as a Group consisting of Paragon Care Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ('HY22'). 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

Waterman Business Centres
Suite 46, 44 Lakeview Drive
Scoresby VIC 3179

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 ('FY21') and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

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

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

Note 3. Operating segments

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

Note 4. Revenue

Disaggregation of revenue

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

	Group	
	HY22	HY21
	\$'000	\$'000
<i>Major product lines</i>		
Devices Product Line	40,455	40,269
Diagnostic Product Line	13,904	12,643
Capital and Consumables Product Line	47,032	52,988
Services and Technology	9,892	9,112
	<u>111,283</u>	<u>115,012</u>
<i>Geographical regions</i>		
Australia	85,895	87,861
New Zealand	24,755	26,322
Other	633	829
	<u>111,283</u>	<u>115,012</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	101,391	105,900
Services transferred over time	9,892	9,112
	<u>111,283</u>	<u>115,012</u>

Note 5. Employee benefits expense

	Group	
	HY22	HY21
	\$'000	\$'000
Payroll costs	24,112	23,086
Defined contributions superannuation expense	1,570	1,441
Share-based payments expense	138	30
JobKeeper subsidy	(19)	(2,985)
	<u>25,801</u>	<u>21,572</u>

Note 6. Other expenses

	Group	
	HY22 \$'000	HY21 \$'000
Management consulting fees	463	1,007
Professional fees	661	608
Information technology	1,688	1,715
Travel costs	359	611
Allowance for expected credit losses	(4)	233
Net loss on sale of assets	71	129
Net foreign exchange loss	44	34
Other corporate costs	941	1,089
	<u>4,223</u>	<u>5,426</u>

Note 7. Trade and other receivables

	Group	
	HY22 \$'000	FY21 \$'000
<i>Current assets</i>		
Trade receivables	20,473	26,659
Less: Allowance for expected credit losses	(699)	(708)
	<u>19,774</u>	<u>25,951</u>
Other receivables	205	250
	<u>19,979</u>	<u>26,201</u>

Allowance for expected credit losses

The Group has recognised a recovery of \$4,000 (FY21: loss of \$358,000) in profit or loss in respect of the expected credit losses for the half-year ended HY22.

Note 8. Borrowings

	Group	
	HY22 \$'000	FY21 \$'000
<i>Current liabilities</i>		
Bank loans	4,500	6,000
Trade finance facility	15,560	15,587
Hire purchase	110	207
	<u>20,170</u>	<u>21,794</u>
<i>Non-current liabilities</i>		
Bank loans	77,397	80,397
Hire purchase	115	74
	<u>77,512</u>	<u>80,471</u>

Note 9. Issued capital

	Group			
	HY22 Shares	FY21 Shares	HY22 \$'000	FY21 \$'000
Ordinary shares - fully paid	351,400,699	337,885,292	117,166	113,952

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
Share issue transaction costs				(165)
Balance	31 December 2021	<u>351,400,699</u>		<u>117,166</u>

Note 10. Reserves

	Group	
	HY22 \$'000	FY21 \$'000
Foreign currency translation reserve	(1,247)	(1,073)
Hedging reserve - cash flow hedges	384	291
Options reserve	207	69
Dividend reserve	10,281	8,279
	<u>9,625</u>	<u>7,566</u>

Movements in reserves

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

Group	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
Foreign currency translation	(174)	-	-	-	(174)
Net investment hedge	-	93	-	-	93
Share-based payments	-	-	138	-	138
Transfer of profit from retained earnings	-	-	-	5,381	5,381
Dividends paid (note 11)	-	-	-	(3,379)	(3,379)
Balance at 31 December 2021	<u>(1,247)</u>	<u>384</u>	<u>207</u>	<u>10,281</u>	<u>9,625</u>

Note 11. Dividends

Dividends paid during the financial half-year were as follows:

	Group	
	HY22 \$'000	HY21 \$'000
Final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share	3,379	-

The company issued 13,515,407 ordinary shares at an issue price of \$0.25 per share pursuant to the Company's Dividend Reinvestment Plan ('DRP') in respect of the final fully franked dividend of 1.0 cent per share announced on 27 August 2021. Also see note 9.

Note 12. Contingent liabilities

The Group has given bank guarantees as at HY22 of \$1,467,196 (FY21: \$1,467,196).

Note 13. Earnings per share

	Group	
	HY22 \$'000	HY21 \$'000
Profit after income tax attributable to the owners of Paragon Care Limited	5,381	5,196
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	344,642,996	337,885,292
Adjustments for calculation of diluted earnings per share:		
Performance rights	9,234,243	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	353,877,239	337,885,292
	Cents	Cents
Basic earnings per share	1.56	1.54
Diluted earnings per share	1.52	1.54

Note 14. Events after the reporting period

Scheme Implementation Deed

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

Under the Deed, Quantum shareholders shall receive 0.243 Paragon Care shares for each Quantum share they own as at the record date of the Scheme, therefore resulting in existing Quantum shareholders owning approximately 43.8% of the combined entity in aggregate and Paragon Care being the ongoing listed entity.

The Scheme was approved by requisite majority of Quantum shareholders on 27 January 2022. Quantum will be entitled to nominate up to two directors to join the Board of Paragon Care immediately following the implementation of the Scheme.

The Supreme Court of New South Wales made orders approving the scheme on 1 February 2022 and the scheme became legally effective on 2 February 2022.

Note 14. Events after the reporting period (continued)

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

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

About Quantum

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

Quantum's business strategy is to provide equipment and service with a long-term renewing business model. Quantum has an installed base of over 3,500 medical systems across Asia. For the year ended 30 June 2021, Quantum reported revenues of \$55 million and net profits before taxes of \$8.7 million.

Primary reasons for the business combination

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

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

Leases

As part of its ongoing warehouse rationalisation activities, Paragon Care has entered into to an arrangement on 26 November 2021 for lease of office spaces and warehouse for a period of fifteen years with an objective to consolidate all of its Victorian operations over the next twelve to eighteen months. The lease is expected to commence in April 2022 with rental commencing after a six-month rent-free period in October 2022. The lease arrangement also covers a works incentive of up to \$14 million towards cost of fit-outs and other improvements. The arrangement will result in recognition of right-of-use asset of approximately \$26 million and an equivalent lease liability upon commencement of the lease.

Dividends

In keeping with Directors confidence in Paragon Care, the directors have declared the payment of a fully franked interim final dividend of 0.6 cents per fully paid ordinary share to be paid on 26th of April 2022 in respect of the financial half year ended 31 December 2021. The dividend will be paid to all shareholders on the register of members as at the Record Date of 22nd of March 2022. This dividend has not been included as a liability in these financial statements.

The dividend is 0.6 cents per fully paid ordinary share for the first half of the 2022 financial year. Whilst it represents a 70% payout of Paragon Care first half NPAT it only represents a 41% payout of the Proforma NPAT calculated by combining Quantum's Half year NPAT (from its management accounts) and Paragon Care audited NPAT which is within the 40% to 60% company dividend payment policy. The Directors are confident that this combined with a final dividend will be within the 40% to 60% company dividend payment policy for the full year.

No other matter or circumstance has arisen since 31 December 2021 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.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Shane Tanner
Chairman

28 February 2022
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT
To the Members of Paragon Care Limited**Report on the Half-Year Financial Report***Conclusion*

We have reviewed the accompanying half-year financial report of Paragon Care Limited ("the company") and its controlled entities (together referred to as "the Group") which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group.

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company 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 (including Independence Standards) (the Code) that are relevant to our audit of the annual 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 Paragon Care Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the Directors for the Financial Report

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

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Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A handwritten signature in blue ink, appearing to read "RSM", is written above the text "RSM AUSTRALIA PARTNERS".

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read "M Parameswaran", is written above the text "M PARAMESWARAN".

M PARAMESWARAN

Partner

Melbourne, Victoria

Dated: 28 February 2022