

Abano Healthcare Financial Statements

FOR THE YEAR ENDED 31 MAY 2011



DIRECTORS

Alison Mae Paterson
Chairman
Appointed 16 October 2002

Trevor David Janes
Deputy chairman
Appointed 23 September 2005

Susan Marie Paterson
Appointed 23 September 2005

Danny Chan
Appointed 19 December 2008

Ted Koert van Arkel
Appointed 5 July 2011

Alan William Clarke
Appointed 31 October 2001

Peter Lionel Hutson
Appointed 25 November 2008

RISK ASSURANCE AND AUDIT COMMITTEE

Trevor Janes (chair),
Alison Paterson, Danny Chan,
Ted van Arkel (appointed 26 July 2011)

REMUNERATION COMMITTEE

Susan Paterson (chair),
Alison Paterson

NOMINATION COMMITTEE

All board members

REGISTERED OFFICE AND ADDRESS FOR SERVICE

Level 16
West Plaza Building
3-7 Albert St, Auckland

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay St, Auckland

BANKERS

ASB Bank Limited
135 Albert St, Auckland

Commonwealth Bank of Australia
240 Queen St
Brisbane, Australia

SOLICITORS

Harmos Horton Lusk
Vero Centre
48 Shortland Street, Auckland

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay St, Auckland

SHARE REGISTRAR

Computershare Investor Services
Limited
159 Hurstmere Road
Takapuna, Auckland

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DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 May 2011 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors have pleasure in presenting the financial statements of Abano Healthcare Group Limited, set out on pages 4 to 44, for the year ended 31 May 2011.

The financial statements presented on the following pages were authorised for issue on 27 July 2011.

For and on behalf of the Board



Alison Paterson
CHAIR



Alan Clarke
MANAGING DIRECTOR



pwc

Independent Auditors' Report

to the shareholders of Abano Healthcare Group Limited

Report on the Financial Statements

We have audited the financial statements of Abano Healthcare Group Limited on pages 4 to 44, which comprise the balance sheets as at 31 May 2011, the income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 May 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Abano Healthcare Group Limited other than in our capacity as auditors and through the provision of accounting technical services and other assurance services.

Opinion

In our opinion, the financial statements on pages 4 to 44:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 May 2011, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 May 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants

27 July 2011

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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INCOME STATEMENT

For the year ended 31 May 2011

	NOTE	GROUP		
		MAY 2011 \$000 TOTAL	MAY 2011 \$000 DISCONTINUED OPERATIONS	MAY 2011 \$000 CONTINUING OPERATIONS
Revenue	3	174,792	-	174,792
Patient consumables and cost of products sold		(30,697)	-	(30,697)
Employee benefits		(99,245)	-	(99,245)
Depreciation and amortisation expenses		(6,292)	-	(6,292)
Occupancy costs		(12,040)	-	(12,040)
Other operating expenses	4	(13,858)	-	(13,858)
Other operating income	5	715	-	715
Operating profit		13,375	-	13,375
Net financing costs	6	(2,513)	-	(2,513)
Fair value amortisation on deferred acquisition consideration	6	(286)	-	(286)
Impairment of goodwill/investment	9	-	-	-
Gain on sale of subsidiaries and associates	10/11	12,386	12,316	70
Share of profit of associates	11	(5,790)	601	(6,391)
Profit before income tax		17,172	12,917	4,255
Income tax expense	7	(3,678)	(94)	(3,584)
Profit for the year		13,494	12,823	671
Attributable to:				
Non-controlling interest share of profit/(loss)		2,030	-	2,030
Equity holders of the Company share of profit/(loss)		11,464	12,823	(1,359)
Profit for the year		13,494	12,823	671
Earnings per share from continuing operations prior to impairment charge (cents)	17			(7.19)
Earnings per share from continuing operations (cents)	17			(7.19)
Earnings per share from discontinued operations (cents)	17			67.82

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2011

	GROUP		COMPANY	
	MAY 2011 \$000	MAY 2010 \$000	MAY 2011 \$000	MAY 2010 \$000
Profit for the year	13,494	78,948	17,985	81,486
Other comprehensive income				
Cash flow hedges, net of tax	(105)	1,336	(105)	1,188
Exchange differences on translating foreign operations	(1,314)	636	-	-
Foreign exchange movement on non-controlling interest	393	(13)	-	-
Total comprehensive income for the year	12,468	80,907	17,880	82,674
Total comprehensive income attributable to:				
Equity holders of the Company	10,045	78,918	17,880	82,674
Non-controlling interests	2,423	1,989	-	-
	12,468	80,907	17,880	82,674

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 14.

MAY 2010 \$000 TOTAL	MAY 2010 \$000 DISCONTINUED OPERATIONS	MAY 2010 \$000 CONTINUING OPERATIONS	COMPANY	
			MAY 2011 \$000	MAY 2010 \$000
178,092	27,518	150,574	199	233
(33,734)	(6,650)	(27,084)	-	-
(93,878)	(8,591)	(85,287)	(1,750)	(2,048)
(6,283)	(989)	(5,294)	(129)	(152)
(12,201)	(2,071)	(10,130)	(138)	(136)
(17,240)	(5,884)	(11,356)	(922)	(1,095)
359	-	359	5,701	10,898
15,115	3,333	11,782	2,961	7,700
(5,148)	(2,643)	(2,505)	(392)	(2,697)
(626)	(493)	(133)	-	(493)
(4,521)	-	(4,521)	-	(4,521)
77,910	77,910	-	12,918	81,064
(1,162)	115	(1,277)	1,836	(1,277)
81,568	78,222	3,346	17,323	79,776
(2,620)	(164)	(2,456)	662	1,710
78,948	78,058	890	17,985	81,486
2,002	(204)	2,206	-	-
76,946	78,262	(1,316)	17,985	81,486
78,948	78,058	890	17,985	81,486
		14.40		
		(5.92)		
		351.77		

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2011

GROUP	SHARE CAPITAL \$000	TREASURY SHARES \$000	FOREIGN EXCHANGE TRANSLATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000
Balance at 1 June 2009	56,115	(918)	(728)	(1,336)
Comprehensive income				
Profit for the year	-	-	-	-
Other comprehensive income				
Cash flow hedge movement	-	-	-	-
Fair values gains	-	-	-	1,909
Tax on fair value gains	-	-	-	(573)
FX translation reserve	-	-	636	-
Foreign exchange movement on non-controlling interest	-	-	-	-
Total other comprehensive income	-	-	636	1,336
Total comprehensive income	-	-	636	1,336
Transactions with owners				
External dividends paid	-	-	-	-
Share buy back scheme	(17,700)	401	-	-
Dividend reinvestment plan	3,397	-	-	-
Share options expense	53	-	-	-
Foreign investor tax credits recognised	-	-	-	-
Non-controlling interest share of losses transferred to comprehensive interest on sale of Bay Audiology	-	-	-	-
Total transactions with owners	(14,250)	401	-	-
Balance at 31 May 2010	41,865	(517)	(92)	-
Balance at 1 June 2010	41,865	(517)	(92)	-
Comprehensive income				
Profit for the year	-	-	-	-
Other comprehensive income				
Cash flow hedge movement	-	-	-	-
Fair values losses	-	-	-	(150)
Tax benefit on fair value losses	-	-	-	45
FX translation reserve	-	-	(1,314)	-
Foreign exchange movement on non-controlling interest	-	-	-	-
Total other comprehensive income	-	-	(1,314)	(105)
Total comprehensive income	-	-	(1,314)	(105)
Transactions with owners				
External dividends paid	-	-	-	-
Share cancellation	(27,606)	177	-	-
Share options expense	53	-	-	-
Gain on sale of shares to non controlling interest	-	-	-	-
Increase in non controlling interest on sale of shares	-	-	-	-
Decrease in non controlling interest on purchase of shares	-	-	-	-
Foreign investor tax credits recognised	-	-	-	-
Total transactions with owners	(27,553)	177	-	-
Balance at 31 May 2011	14,312	(340)	(1,406)	(105)

RETAINED EARNINGS \$000	TOTAL \$000	MINORITY INTEREST \$000	TOTAL EQUITY \$000
6,165	59,298	3,193	62,491
76,946	76,946	2,002	78,948
-	-	-	-
-	1,909	-	1,909
-	(573)	-	(573)
-	636	-	636
-	-	(13)	(13)
-	1,972	(13)	1,959
76,946	78,918	1,989	80,907
(15,093)	(15,093)	(1,704)	(16,797)
-	(17,299)	-	(17,299)
-	3,397	-	3,397
-	53	-	53
219	219	-	219
-	-	419	419
(14,874)	(28,723)	(1,285)	(30,008)
68,237	109,493	3,897	113,390
68,237	109,493	3,897	113,390
11,464	11,464	2,030	13,494
-	(150)	-	(150)
-	45	-	45
-	(1,314)	-	(1,314)
-	-	393	393
-	(1,419)	393	(1,026)
11,464	10,045	2,423	12,468
(4,051)	(4,051)	(3,215)	(7,266)
-	(27,429)	-	(27,429)
-	53	-	53
44	44	-	44
-	-	55	55
132	132	(132)	-
44	44	-	44
(3,831)	(31,207)	(3,292)	(34,499)
75,870	88,331	3,028	91,359

STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 31 May 2011

COMPANY	SHARE CAPITAL \$000	TREASURY SHARES \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL \$000
Balance at 1 June 2009	56,115	(918)	(1,188)	(20,517)	33,492
Comprehensive income					
Profit for the year	-	-	-	81,486	81,486
Other comprehensive income					
Cash flow hedge movement					
Fair values gains	-	-	1,697	-	1,697
Tax on fair value gains	-	-	(509)	-	(509)
Total other comprehensive income	-	-	1,188	-	1,188
Total comprehensive income	-	-	1,188	81,486	82,674
Transactions with owners					
External dividends paid	-	-	-	(15,093)	(15,093)
Share options expense	53	-	-	-	53
Foreign investor tax credits recognised	-	-	-	219	219
Share buy back scheme	(17,700)	401	-	-	(17,299)
Dividend reinvestment plan	3,397	-	-	-	3,397
Total transactions with owners	(14,250)	401	-	(14,874)	(28,723)
Balance at 31 May 2010	41,865	(517)	-	46,095	87,443
Balance at 1 June 2010	41,865	(517)	-	46,095	87,443
Comprehensive income					
Profit for the year				17,985	17,985
Other comprehensive income					
Cash flow hedge movement					
Fair values losses			(150)		(150)
Tax benefit on fair value losses			45		45
Total other comprehensive income	-	-	(105)	-	(105)
Total comprehensive income	-	-	(105)	17,985	17,880
Transactions with owners					
Dividends paid		-		(4,051)	(4,051)
Share cancellation	(27,606)	177			(27,429)
Share options expense	53	-			53
Gain on sale of shares to non controlling interest		-		44	44
Foreign investor tax credits recognised	-	-		44	44
Total transactions with owners	(27,553)	177	-	(3,963)	(31,339)
Balance at 31 May 2011	14,312	(340)	(105)	60,117	73,984

BALANCE SHEET

As at 31 May 2011

	Note	GROUP		COMPANY	
		MAY 2011 \$000	MAY 2010 \$000	MAY 2011 \$000	MAY 2010 \$000
ASSETS					
Non-current assets					
Property, plant and equipment	8	33,638	26,581	142	215
Intangible assets	9	92,888	80,733	101	136
Investments in subsidiaries	10	-	-	30,097	30,213
Investments in associates and jointly controlled entities	11	2,774	24,723	11,000	24,723
Trade and other receivables	13	12,854	5,093	11,544	4,085
Deferred tax assets	14	1,976	884	2,471	241
Total non-current assets		144,130	138,014	55,355	59,613
Current assets					
Cash and cash equivalents		6,678	5,493	1,462	2,884
Trade and other receivables	13	12,421	11,861	33,075	26,348
Inventories	15	5,583	5,025	-	-
Current income tax assets		173	1,513	-	2,505
Total current assets		24,855	23,892	34,537	31,737
Total assets		168,985	161,906	89,892	91,350
EQUITY					
Share capital	16	13,972	41,348	13,971	41,348
Foreign currency translation reserve		(1,406)	(92)	-	-
Cash flow hedge reserve		(105)	-	(105)	-
Retained earnings		75,871	68,237	60,117	46,095
Total equity attributable to equity holders of the parent		88,332	109,493	73,983	87,443
Non-controlling interest		3,028	3,897	-	-
Total equity		91,360	113,390	73,983	87,443
LIABILITIES					
Non-current liabilities					
Borrowings	19	42,106	19,415	14,250	2,750
Non-current payables	21	7,053	4,519	-	-
Deferred tax liabilities	14	649	405	-	-
Derivative financial instruments	12	146	-	146	-
Deferred acquisition consideration	20	3,992	2,792	-	-
Total non-current liabilities		53,946	27,131	14,396	2,750
Current liabilities					
Borrowings	19	2,187	549	231	113
Derivative financial instruments	12	-	-	-	-
Current income tax liabilities		657	1,375	-	-
Deferred acquisition consideration	20	920	2,951	-	-
Trade and other payables	21	19,915	16,510	1,282	1,044
Total current liabilities		23,679	21,385	1,513	1,157
Total liabilities		77,625	48,516	15,909	3,907
TOTAL EQUITY AND LIABILITIES		168,985	161,906	89,892	91,350

STATEMENT OF CASH FLOWS

For the year ended 31 May 2011

	Note	GROUP		COMPANY	
		MAY 2011 \$000	MAY 2010 \$000	MAY 2011 \$000	MAY 2010 \$000
Cash flows from operating activities					
Receipts from customers		174,695	150,826	397	276
Payments to suppliers and employees		(152,780)	(132,696)	(2,882)	(3,255)
Interest received		589	518	260	246
Interest paid		(2,599)	(3,066)	(303)	(1,333)
Income tax paid		(3,817)	(1,462)	-	-
Discontinued operations		-	5,319	-	-
Net cash generated from operating activities	27	16,088	19,439	(2,528)	(4,067)
Cash flows from investing activities					
Sale of property, plant and equipment		13	46	-	-
Net proceeds from sale of subsidiaries/businesses/associates		29,167	95,516	28,637	95,516
Purchase of property, plant and equipment		(11,436)	(4,130)	(21)	(116)
Purchase of subsidiaries/businesses		(15,824)	(11,866)	-	-
Investment in associates		-	(26,000)	-	(26,000)
Loss on cancellation of interest rate swaps		-	(1,360)	-	(1,363)
Dividends received		-	-	5,290	10,850
Other investing cash flows		(7,761)	(4,075)	(7,459)	(4,085)
Discontinued operations		-	32,058	-	-
Net cash used in investing activities		(5,841)	80,189	26,447	74,802
Cash flows from financing activities					
Proceeds from borrowings		27,507	-	11,500	29,818
Settlement of borrowings		(982)	(36,959)	(5,479)	(69,542)
Equity raised		-	3,397	-	3,397
Dividend paid		(4,051)	(15,093)	(4,051)	(15,093)
Dividend paid to non-controlling interests		(3,215)	(1,719)	-	-
Share buy back/cancellation		(27,429)	(17,298)	(27,429)	(17,298)
Discontinued operations		-	(32,079)	-	-
Net cash used in financing activities		(8,170)	(99,751)	(25,459)	(68,718)
Net increase/(decrease) in cash held		2,077	(123)	(1,540)	2,017
Cash and cash equivalents at beginning of the year		5,380	4,880	2,771	754
Net increase/(decrease) in cash held		2,077	(123)	(1,540)	2,017
Exchange gain/(loss) on net assets held by foreign subsidiaries		(1,010)	623	-	-
Cash and cash equivalents at end of year		6,447	5,380	1,231	2,771
Cash and cash equivalents comprises:					
Cash at bank		6,678	5,493	1,462	2,884
Bank overdrafts	19	(231)	(113)	(231)	(113)
		6,447	5,380	1,231	2,771

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL INFORMATION

Abano Healthcare Group Limited (the Company) is a healthcare and medical service provider. The Company is a listed public company, incorporated and domiciled in New Zealand. There is no parent or ultimate parent as the shares are widely held.

The consolidated financial statements of the Company for the year ended 31 May 2011, comprise the Company and its subsidiaries (together the Group) and the Group's interest in associates.

The consolidated and Company financial statements are presented in New Zealand dollars rounded to the nearest thousand.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP, incorporating New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements comply with NZ IFRSs, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The Group has designated itself as a profit-oriented entity for the purposes of complying with NZ IFRS. The Group and Company financial statements also comply with IFRS.

The significant accounting policies applied in the preparation of the financial statements are set out below.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The accounting principles applied in the preparation of the financial statements are on a historical cost basis, with the exception of financial assets and liabilities (including derivative instruments) at fair value through the profit or loss.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities over which the Group has control of the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated on consolidation.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed as incurred.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired

is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Associates

Associates are entities over which the Group has significant influence, but not control, of its commercial and financial policy decisions (generally accompanying a shareholding of between 20% and 50% of the voting rights).

Investments in associates are accounted for using the equity method, whereby the Group's share of the recognised gains and losses of an associate is included in the consolidated income statement and adjusted against the carrying amount of the investment. The Group's investments in associates are initially recorded at cost and include goodwill (net of any impairment losses) identified on acquisition.

Jointly controlled entities

Jointly controlled entities are entities over which the Group has contractually agreed sharing of control over the economic activity of that entity. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Investments in jointly controlled entities are accounted for in the Group financial statements using the equity method as prescribed above for investments in associates. In the Company financial statements the investments in jointly controlled entities are recognised at cost or fair value, less any impairment.

Transactions with non controlling interests

The Group treats transactions with non controlling interests as transactions with equity owners of the Group. When disposals to non controlling interests results in a change in control, any gains and losses for the Group are recorded in the Income Statement. If disposals do not result in a change in control, any gain or loss is recognised in the Statement of Movements in Equity. For purchases from non controlling interests, the difference between any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the foreign operations are measured using the currency of the primary economic environment in which it operates ('the functional currency').

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

Foreign operations

The results and balance sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the closing rate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Cost is the fair value of consideration given to acquire or construct the asset, plus other directly attributable costs which have been incurred in bringing the asset to the location and condition necessary for its intended use.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, only where it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other costs are recognised as repairs and maintenance in the income statement when incurred.

Depreciation of property, plant and equipment (excluding land), is calculated on a straight line basis to allocate the cost of the assets over their expected useful lives. For major classes of property, plant and equipment, the expected useful lives are:

Buildings	50 years
Leasehold improvements	5 - 10 years
Computer and office equipment	3 - 5 years
Motor vehicles	3 - 7 years
Plant and equipment	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Negative goodwill arising on an acquisition is recognised directly in the income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is assessed at the lowest level for which there are separately identifiable cash flows (cash generating units). Each of these cash generating units represent the Group's investment in each sector by primary reporting segment.

Computer software

Software assets, licences and costs of developing computer systems are recorded as intangible assets when it is probable that future economic benefits will accrue to the Group. Computer software costs recognised as intangible assets are amortised over their estimated useful lives (not exceeding five years). Costs associated with maintaining computer software are recognised as an expense as incurred.

Software acquired as an integral part of plant and equipment is included in property, plant and equipment, and amortised over the life of the underlying asset.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into cash generating units.

Previously recognised impairment losses on assets other than goodwill may be reversed if there is a positive change in the estimates of the recoverable amount, but only to the extent of the prior cumulative impairment loss.

INVESTMENTS

Investments held by the Group are classified into the following categories: financial assets at fair value through profit or loss, or loans and receivables. Classification depends on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase or sell the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs, and carried at amortised cost using the effective interest-rate method.

They are included as current assets, except for maturities greater than 12 months after balance date, which are classified

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Financial assets at fair value through profit or loss

Derivatives held by the Group which are not designated as hedges are classified as financial assets at fair value through profit or loss. These derivatives are carried at fair value. Gains and losses arising from changes in the fair value of these assets are included in the income statement.

The Group uses derivative financial instruments to hedge its exposure to interest-rate risks. Where derivatives qualify for hedge accounting, recognition of any gain or loss is made in equity to the extent that the hedge was deemed effective. The portion of the hedge not deemed effective is recognised in the income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as a hedge of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

Hedging relationships are documented at inception, along with the assessment of whether the relationship is highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within "Net financing costs".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises purchased goods and raw materials, direct labour and other direct costs, including allocated production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

TRADE RECEIVABLES

Trade receivables are amounts outstanding from sales arising in the normal course of business, which normally have 30 to 90 day terms. Trade receivables are initially recognised at fair value (generally their original invoice amount) and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due

according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest-rate. The amount of the provision is recognised in the income statement.

TRADE AND OTHER PAYABLES

The amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and at bank, call deposits and short-term deposit accounts with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

SHARE CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

BORROWINGS

Bank borrowings

Borrowings are initially recognised at fair value, net of any transaction costs. Borrowings are subsequently stated at amortised cost using the effective interest method, where any difference between the net proceeds and redemption value is recognised in the income statement over the period of the borrowing. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not recognised if it arises from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and the differences relating to investments in subsidiaries and associates to the extent that they will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured using tax rates enacted at balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

LEASES

Leases in which a significant portion of the risks and rewards of ownership is transferred to the Group are classified as finance leases. Leased assets are recognised initially at the lower of the present value of the lease payments or their fair value. Leased assets are depreciated on the same basis as equivalent property, plant and equipment.

A lease is classified as an operating lease if it is not a finance lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

EMPLOYEE BENEFITS

Short-term employee benefits

Employee entitlements to salaries, wages and annual leave, to be settled within 12 months of reporting date represent present obligations resulting from employees' services provided up to the reporting date and are calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

Long-term employee benefits

Long-term benefits for the Group represent long-service leave which vests to the employee after varying periods of service. The Group's net obligation in respect of long-service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised in the income statement.

Share-based compensation

The Group operates an equity-settled, share-based compensation plan granting non-transferable options to employees. The fair value of the options granted is recognised as an employee expense and is spread over the vesting period, based on the Group's estimate of the shares that will eventually vest.

REVENUE RECOGNITION

Sales of services

Sales of services are recognised according to the conditions of the contract, generally in the accounting period in which the service is rendered by reference to the proportion of the total services to be provided.

Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Abano Board.

Management has determined the operating segments based on the reports reviewed by the Board.

The reportable operating segments have been determined as:

Dental – This sector provides a full range of general dental work, including complex restorative and cosmetic dental services. The majority of revenue comes from private patients and the sector has businesses operating in New Zealand and Australia.

Diagnostics – The Group has operations in two areas of this sector – Pathology and Radiology. Pathology services include collection, testing and reporting of pathology tests from community based patients. The majority of revenue comes from local DHB contracts with the remainder from private testing, commercial testing and research. Radiology services provide full modality scanning services including MRI

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

Scanning, CT Scanning, PET CT Scanning, Ultrasound Scanning, Mammography and Interventional Radiology. The majority of revenue comes from private patients with the remainder from DHB and MOH contracts. Both businesses operate within New Zealand.

Rehabilitation – The Group has operations in two areas of this sector – Brain Injury Rehabilitation and Orthotics. Brain Injury Rehabilitation includes Residential and Community services encompassing assessment services, rehabilitation programmes, clinical interventions and supported accommodation. The majority of revenue is funded by ACC and the MOH. Orthotics provides a full range of clinical orthotic services and specialist products. The majority of revenue is from DHB contracts and ACC. Both businesses operate within New Zealand.

Audiology – During the prior year the operating segments forming this reportable segment were sold and have been disclosed as discontinued operations. This sector provided professional clinical audiology services, particularly hearing tests, the supply and fitting of hearing aid devices, and follow up consultations, all of which were provided to both private patients as well as publicly funded patients. The Group had businesses operating in this sector in New Zealand, Australia, Singapore and Hong Kong. These are now disclosed as investments in jointly controlled entities.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a material risk adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the fair value of deferred acquisition consideration and the carry amount of goodwill and related impairment provisions.

Judgements made by management in applying the Group's accounting policies have not resulted in any significant effect on the amounts recognised in the financial statements.

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including credit risk, foreign exchange risk and interest-rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

Credit risk

The Group incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The Group manages its exposure to credit risk through its credit policy, which restricts exposure to individual trade receivables. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group does not have any significant concentration of credit risk.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from transactions denominated in foreign currencies. The Group's policy is to manage foreign exchange risk to ensure that changes in foreign exchange rates do not materially impair the Group's profitability or cashflows. The Group uses forward contracts to manage its foreign exchange risk on material future commercial transactions.

Interest-rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cashflow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair-value interest-rate risk. Group policy is to maintain a minimum level of 60% and maximum of 90% fixed rate debt on forecast debt levels. The Group manages its interest-rate risk through the use of interest-rate swaps.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group has adopted the following new and amended IFRSs as of 1 June 2010:

- NZ IFRS 3 (revised), 'Business combinations', and consequential amendments to NZ IAS 27, 'Consolidated and separate financial statements' are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with NZ IFRS 3. All payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. All acquisition related costs, previously recorded as goodwill, are now expensed. In the current financial year this resulted in acquisition costs of \$0.8m being expensed in the income statement (31 May 2010: \$0.4m recorded as goodwill). There were no other material impacts resulting from the change in standards for the current financial year.

CHANGES IN ACCOUNTING POLICIES

Except for the effects of the initial application of NZ IFRS 3 (revised) as described above, there have been no changes in accounting policies during the year.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

	REHABILITATION		DIAGNOSTICS		DENTAL	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Segment revenue	21,769	21,273	38,045	37,181	114,978	92,119
Share of profit in associates	-	-	-	-	-	-
Segment operating results ¹	2,669	1,859	5,496	5,778	7,206	6,925
DEPRECIATION & AMORTISATION	236	382	1,660	1,698	4,267	3,063
Unallocated						
TOTAL ASSETS	17,284	17,240	36,989	32,527	97,419	77,304
Investment in associates and jointly controlled entities						
Unallocated						
TOTAL LIABILITIES	2,398	2,433	15,995	11,397	44,733	30,779
Unallocated						
CAPITAL EXPENDITURE	88	282	5,152	582	6,532	3,711

¹ Operating results include the allocation of attributable corporate overheads. Unallocated costs are specific to the Company.

	2011 \$000	2010 \$000
Operating result for continuing reportable segments	15,371	14,562
Unallocated corporate overheads	(1,996)	(2,780)
Operating profit	13,375	11,782
Impairment of goodwill/investment	-	(4,521)
Net financing costs	(2,799)	(2,638)
Profit on sale of business	70	-
Share of profit/(loss) of associates	(6,391)	(1,277)
Profit before income tax and discontinued operations	4,255	3,346

TOTAL CONTINUING OPERATIONS		TOTAL DISCONTINUED OPERATIONS AUDIOLOGY		TOTAL	
2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
174,792	150,573	-	27,519	174,792	178,092
-	-	-	115	-	115
15,371	14,562	-	2,726	15,371	17,288
6,163	5,143	-	989	6,163	6,132
				129	152
				6,292	6,284
151,692	127,071	-	-	151,692	127,071
				2,774	24,723
				15,926	10,112
				170,392	161,906
63,126	44,609	-	-	63,126	44,609
				15,906	3,907
				79,032	48,516
11,772	4,575	-	4,124	11,772	8,699

ENTITY-WIDE DISCLOSURES	NEW ZEALAND		AUSTRALIA		OTHER COUNTRIES	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Revenues from external customers	113,519	128,299	61,274	48,571	-	1,222
Total non-current assets	97,446	70,403	46,684	36,909	-	-

During the financial year the Group earned \$23M from a single external customer, which accounted for more than 10% of revenue during the year. This revenue was recognised across the Group's Diagnostic, Dental and Rehabilitation segments.

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUE

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Sale of goods	10,435	35,570	-	-
Services rendered	164,357	142,522	-	-
Management fees	-	-	199	233
	174,792	178,092	199	233

4. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Operating expenses include:				
Directors' fees ¹	373	391	295	251
Donations	27	26	21	21
Net loss on sale of plant and equipment	35	34	-	-
Rental expense on operating leases	8,722	9,537	105	105
Acquisition costs ²	761	-	-	-
Auditors' fees				
Audit services - PWC New Zealand	235	239	78	85
Audit services - PWC Australia	60	59	-	-
Other services provided ³	53	33	53	33

¹ In the prior year, additional directors' fees totalling \$50,000 were paid to some members of the Abano Board in relation to additional work performed for the sale of Bay Audiology Limited. These fees were included in the transaction costs of the sale.

² With the revised NZIFRS 3 "Business Combinations" coming into effect for the current financial year, costs associated with an acquisition are expensed in the income statement. In the prior year, acquisition costs of \$438,549 were capitalised during the year.

³ Other services provided included accounting advice and bench marking advice.

5. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Operating income includes:				
Dividends received from subsidiaries	-	-	5,290	10,850
Gain on sale of investment	-	-	-	-
Rental income	237	215	-	-
Sundry other income	478	144	412	48
	715	359	5,702	10,898

6. NET FINANCING COSTS

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Financial income				
Cash and cash equivalents	439	518	260	246
Fair value gain on interest swaps	-	428	-	428
	439	946	260	674
Financial expenses				
Bank borrowings	(2,371)	(3,859)	(652)	(1,708)
Other borrowings	(581)	(572)	-	-
Fair value loss on interest swaps	-	(1,663)	-	(1,663)
Fair value amortisation on deferred acquisitions	(286)	(626)	-	(493)
	(3,238)	(6,720)	(652)	(3,864)
Net financing costs	(2,799)	(5,774)	(392)	(3,190)

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current tax expense				
Current year	3,544	2,696	(762)	(1,550)
(Over)/under provision for prior years	25	(824)	3	(58)
	3,569	1,872	(759)	(1,608)
Deferred tax expense				
Movement in temporary differences	101	332	100	(74)
(Over)/under provision for prior years	8	416	(3)	(28)
	109	748	97	(102)
Total income tax expense in income statement	3,678	2,620	(662)	(1,710)

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Reconciliation of accounting profit and taxable income				
Profit before tax	17,172	81,568	17,323	79,776
Taxation at 30%	6,089	24,470	5,197	23,932
Non deductible put option	-	148	-	148
Share of surplus of associate	(180)	(168)	(180)	(168)
Share of loss of associate	980	551	(551)	551
Non deductible items	297	1,960	(7)	1,859
Impact of change in tax rate on deferred tax ¹	56	(41)	10	-
Foreign investment fund treatment of share in profit of associate	94	131	94	131
Unimputed dividends	57	-	-	-
Tax exempt dividends	-	-	(1,430)	(594)
Gross up of fully imputed dividends	-	-	(99)	(2,660)
Non assessable items	(3,748)	(24,023)	(3,696)	(24,823)
Prior period adjustment	33	(408)	-	(86)
Total income tax expense in income statement	3,678	2,620	(662)	(1,710)

¹ From the 2011/12 income tax year the New Zealand company tax rate has changed from 30% to 28%

	COMPANY	
	2011 \$000	2010 \$000
Imputation credit account		
Balance at beginning of year	220	1,877
Net tax payments/(refunds)	-	-
Credits attached to dividends received	1,936	4,823
Credits attached to dividends paid	(1,672)	(6,480)
Balance at end of year	484	220
Imputation credits available to shareholders of the parent company:		
Through the parent	484	220
Through subsidiaries	392	1,033
	876	1,254

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

GROUP	TOTAL \$000	LEASEHOLD IMPROVEMENTS \$000	PLANT & EQUIPMENT \$000	MOTOR VEHICLES \$000	WORK IN PROGRESS \$000
AT 1 JUNE 2009					
Cost	53,974	13,737	39,087	1,112	38
Accumulated depreciation	(19,989)	(4,996)	(14,220)	(773)	-
Net Book Value	33,985	8,741	24,867	339	38

YEAR ENDED 31 MAY 2010					
Opening net book value	33,985	8,741	24,867	339	38
Acquired through business combinations	1,150	66	1,084	-	-
Additions	7,721	3,834	3,745	142	-
Disposals	(10,386)	(6,740)	(3,564)	(82)	-
Exchange differences	(40)	(1)	(39)	-	-
Depreciation	(5,849)	(1,572)	(4,160)	(117)	-
Closing Net Book Value	26,581	4,328	21,933	282	38

AT 1 JUNE 2010					
Cost	52,419	10,896	40,313	1,172	38
Accumulated depreciation	(25,838)	(6,568)	(18,380)	(890)	-
Net Book Value	26,581	4,328	21,933	282	38

YEAR ENDED 31 MAY 2011					
Opening net book value	26,581	4,328	21,933	282	38
Acquired through business combinations	2,430	147	2,283	-	-
Additions	10,250	1,486	3,770	37	4,957
Disposals	(193)	(2)	(191)	-	-
Exchange differences	393	41	351	1	-
Depreciation	(5,823)	(665)	(5,055)	(103)	-
Closing Net Book Value	33,638	5,335	23,091	217	4,995

AT 31 MAY 2011					
Cost	64,761	12,558	45,998	1,210	4,995
Accumulated depreciation	(31,123)	(7,223)	(22,907)	(993)	-
Net Book Value	33,638	5,335	23,091	217	4,995

Plant & Equipment and work in progress include the following amounts where the Group is a lessee under a finance lease. Remaining lease terms are between three and six years.

	PLANT & EQUIPMENT	
	2011 \$000	2010 \$000
Cost - capitalised finance leases	11,033	7,303
Accumulated depreciation	(2,409)	(2,050)
Net Book Value	8,624	5,253

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT CONTINUED

COMPANY	TOTAL \$000	LEASEHOLD IMPROVEMENTS \$000	PLANT & EQUIPMENT \$000
AT 1 JUNE 2009			
Cost	679	337	342
Accumulated depreciation	(419)	(194)	(225)
Net Book Value	260	143	117
YEAR ENDED 31 MAY 2010			
Opening net book value	260	143	117
Additions	54	-	54
Depreciation	(99)	(56)	(43)
Closing Net Book Value	215	87	128
AT 1 JUNE 2010			
Cost	733	337	396
Accumulated depreciation	(518)	(250)	(268)
Net Book Value	215	87	128
YEAR ENDED 31 MAY 2011			
Opening net book value	215	87	128
Additions	20	-	20
Depreciation	(93)	(56)	(37)
Closing Net Book Value	142	31	111
AT 31 MAY 2011			
Cost	753	337	416
Accumulated depreciation	(611)	(306)	(305)
Net Book Value	142	31	111

The Company does not have any assets that are subject to a finance lease.

NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

	GROUP			COMPANY		
	GOODWILL \$000	SOFTWARE \$000	TOTAL \$000	GOODWILL \$000	SOFTWARE \$000	TOTAL \$000
AT 1 JUNE 2009						
Cost	150,636	6,451	157,087	65	271	336
Accumulated amortisation and impairment	(2,156)	(3,378)	(5,534)	(65)	(144)	(209)
Net Book Value	148,480	3,073	151,553	-	127	127
YEAR ENDED 31 MAY 2010						
Opening net book value	148,480	3,073	151,553	-	127	127
Additions	-	1,094	1,094	-	63	63
Disposals	(76,298)	(2,862)	(79,160)	-	-	-
Impairment charge	(4,521)	-	(4,521)	-	-	-
Acquisition of subsidiaries/businesses	12,866	3	12,869	-	-	-
Exchange differences	24	(6)	18	-	-	-
Fair value movement	(686)	-	(686)	-	-	-
Amortisation charge	-	(434)	(434)	-	(54)	(54)
Closing Net Book Value	79,865	868	80,733	-	136	136
AT 1 JUNE 2010						
Cost	86,542	4,680	91,222	-	334	334
Accumulated amortisation and impairment	(6,677)	(3,812)	(10,489)	-	(198)	(198)
Net Book Value	79,865	868	80,733	-	136	136
YEAR ENDED 31 MAY 2011						
Opening net book value	79,865	868	80,733	-	136	136
Additions	57	1,533	1,590	-	1	1
Disposals	(57)	(1)	(58)	-	-	-
Acquisition of subsidiaries/businesses	11,237	23	11,260	-	-	-
Exchange differences	(55)	11	(44)	-	-	-
Fair value movement	(124)	-	(124)	-	-	-
Amortisation charge	-	(469)	(469)	-	(36)	(36)
Closing Net Book Value	90,923	1,965	92,888	-	101	101
AT 31 MAY 2011						
Cost	97,600	6,246	103,846	-	335	335
Accumulated amortisation and impairment	(6,677)	(4,281)	(10,958)	-	(234)	(234)
Net Book Value	90,923	1,965	92,888	-	101	101

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. A segment-level summary of the goodwill allocation is presented below:

	2011 \$000	2010 \$000
Rehabilitation	12,252	12,193
Diagnostics	12,544	12,599
Dental		
- New Zealand	29,083	24,449
- Australia	37,092	30,624
	90,923	79,865

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections derived from the Group's strategic plan forecasts. These forecasts cover a four year period.

Cash flows beyond the four-year period are extrapolated using an estimated growth rate of 2% (2010: 2%).

The growth rate does not exceed the long-term average growth rate for the sectors in which the CGU's operate.

Cash flows are discounted at a pre-tax discount rate of 10.73% (2010: 10.73%).

The value-in-use calculation supports the carrying amount of the recorded goodwill at year end.

NOTES TO THE FINANCIAL STATEMENTS

Prior Year

The Directors determined the recoverable amount of the Rehabilitation sector goodwill was \$12.2M and an impairment charge of \$4.5M was recorded in the income statement in the year ended 31 May 2010. The goodwill which was impaired arose on the acquisition of both the Burton and Ranworth businesses which are included in the Rehabilitation segment. Earnings from operations had been impacted by changes in referrals from the Accident Compensation Corporation (ACC). Therefore projected cash flows no longer supported the previous goodwill carrying value of these businesses.

Following the prior year impairment, there have been no significant changes in the operations of the Rehabilitation sector. Management have reviewed the carrying value of goodwill and assessed that no further impairment is required.

10. INVESTMENTS IN SUBSIDIARIES

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Shares in subsidiaries	-	-	30,097	30,213

The Company's investments in subsidiaries comprises shares at cost.

The following subsidiaries have been included in the Group consolidated financial statements:

NAME OF ENTITY	Note	PRINCIPAL ACTIVITY	LEGAL INTEREST HELD BY GROUP	
			2011	2010
Abano Dental Limited		Dental	100%	100%
Dental Partners Pty Limited		Dental	70%	70%
Kidz Teeth Limited		Dental	70%	70%
Lumino Dental Limited		Dental	100%	100%
Abano Radiology Limited		Diagnostic	100%	100%
Aotea Pathology Limited		Diagnostic	55%	55%
Ascot Radiology Limited		Diagnostic	71%	73%
Insight Radiology Limited		Diagnostic	80%	80%
Wellington Pathology Limited		Diagnostic	100%	100%
Abano Rehabilitation Limited		Rehabilitation	100%	100%
Orthotic Centre (Midland) Limited		Rehabilitation	100%	67%
Orthotic Centre (NZ) Limited		Rehabilitation	100%	100%
Orthotic Centre (Wellington) Limited		Rehabilitation	100%	100%

The balance date of all subsidiaries is 31 May.

Dental Partners Pty Limited is incorporated in Australia. All other entities are incorporated in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES CONTINUED

ACQUISITION OF SUBSIDIARIES

Current Year

On 16 December 2010, the Group acquired an additional 33% of the shares of Orthotic Centre (Midland) Limited, increasing its shareholding to 100%. Cash consideration of \$106,104 was paid to the non-controlling interest.

Prior Year

No new subsidiaries were acquired during the prior year.

ACQUISITION OF BUSINESSES

During the year the Group acquired the following businesses:

Lismore Dental Practice (New South Wales)	4 Jun 2010	Beale & Radka (Invercargill)	22 Oct 2010
Evatt Dental Care (Australian Capital Territory)	16 June 2010	Wairakei Dental Centre (Christchurch)	30 Nov 2010
Hallett Cove Dental (South Australia)	7 July 2010	Narooma Dental Surgery (New South Wales)	1 Dec 2010
Windsor Chiro & Dental (New South Wales)	13 Aug 2010	A Smiling Place (Queensland)	17 Dec 2010
John Sotis Dental Surgery (Queensland)	30 Sept 2010	Taradale Dental (Napier)	4 Mar 2011
Boyd Street Dental (New South Wales)	30 Sept 2010	North Avon Dental (Christchurch)	31 Mar 2011
Matthew Flinders Dental (Victoria)	30 Sept 2010	Lifestyle Dental (Queensland)	1 Apr 2011
Max & Beresford (Auckland)	1 Oct 2010		
The Willows Dental Centre (Tauranga)	11 Oct 2010		

Summary of the effect of the acquisitions:

	NOTE	DENTAL \$000
Fair value of net assets acquired:		
Current assets		913
Current liabilities		(210)
Non-current liabilities		-
Non-current assets		2,453
Goodwill on acquisition		9,494
Cash consideration paid		12,650
Deferred acquisition consideration		1,743
Total consideration		14,393
Goodwill on acquisition		9,494
Deferred acquisition consideration	20	1,743
Total goodwill recognised	9	11,237
Purchase consideration:		
Cash paid		12,650
Deferred acquisition consideration		1,743
Total purchase consideration		14,393

The goodwill is attributable to the acquired customer base and economies of scale expected from combining the operations of the group.

The contribution of the Group EBITDA, after additional related support costs, since acquisition to 31 May 2011 is \$3.0M.

The annualised revenue and EBITDA had the business and assets been acquired at the beginning of the period are estimated at \$22.4M and \$4.7M respectively.

Due to the number of businesses acquired and the difference in their size and the markets they operate, it was deemed impractical to present a range of outcomes for the deferred acquisition consideration.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES CONTINUED

DISPOSAL OF SUBSIDIARY

Current Year

In January 2011, a new associate radiologist was introduced as an equity partner in Ascot Radiology Limited and Abano sold a 2% shareholding, reducing its shareholding to 71%.

Prior Year

On 3 November 2009 the Group sold its New Zealand audiology business, Bay Audiology Limited and its subsidiary Bay Audiology South Limited, to National Hearing Care (New Zealand) Limited for NZ\$157.8M, resulting in a gain on sale of NZ\$77.9M.

Bay Audiology Limited's results, along with its subsidiaries are presented in the comparatives for these financial statements as a discontinued operation. The income statement and cash flow statement distinguish discontinued operations from continuing operations.

11. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The Group continues to have interests in audiology in Australia and Asia through its investment in Bay International Limited.

As the Group has joint control in this entity, any profit or loss from its 50% shareholding in Bay International Limited is accounted for under the equity method.

On 15 December 2010, Bay International Limited acquired a 100% shareholding in Team Bell Limited. This company is domiciled in Taiwan and operates a chain of nine audiology clinics. On acquisition, the name of the company was changed to Bay Audiology (Taiwan) Limited.

The Group's investments in jointly controlled entities that are equity accounted comprises:

		2011	2010
Bay International Limited	Audiology	50%	50%
Bay Audio Pty Limited ¹	Audiology	47.5%	48%
Bay Audiology (Hong Kong) Limited ¹	Audiology	50%	50%
Bay Audiology (Singapore) PTE Limited ¹	Audiology	50%	50%
Bay Audiology (Malaysia) SDN. BHD. ¹	Audiology	50%	50%
Bay Audiology (Taiwan) Limited ¹	Audiology	50%	-

Bay Audio Pty Limited is incorporated in Australia, Bay Audiology (Hong Kong) Limited is incorporated in Hong Kong, Bay Audiology (Singapore) PTE Limited is incorporated in Singapore, Bay Audiology (Malaysia) SDN. BHD is incorporated in Malaysia and Bay Audiology (Taiwan) is incorporated in Taiwan.

¹ Direct subsidiaries of Bay International Limited

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Balance at beginning of the year	24,723	602	24,723	-
Interest acquired in NHC Group Pty Limited	-	15,000	-	15,000
Investment in Bay International Limited	-	11,000	-	11,000
Share of profit/(loss)	(5,790)	(1,162)	1,836	(1,277)
Disposal of interest in NHC Group Pty Limited	(16,159)	-	(15,559)	-
Disposal of interest in Dilworth Audiology Limited	-	(717)	-	-
Balance at end of the year	2,774	24,723	11,000	24,723

Investments in associates at 31 May 2011 include goodwill of \$13M (2010: \$10.2M).

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES CONTINUED

DISPOSAL OF INVESTMENT IN ASSOCIATE

On 29 September 2010 the Group announced the sale of its jointly held 13% shareholding in NHC Group Pty Limited (NHC). NHC is an Australasian audiology company which acquired Bay Audiology Limited in November 2009. As part of the Bay sale transaction, Abano and interests associated with Bay's founder, Peter Hutson, acquired the shareholding in NHC, on a 50:50 basis, for an investment of NZ\$30 million.

NHC was sold to Amplifon Group for a total consideration of A\$460 million. The sale went unconditional in early December 2010 and settlement occurred on 10 December 2010. The Group's share of proceeds, after repayment of NHC's enterprise debt, sale costs and closing adjustments, was NZ\$27.7M, resulting in a gain on sale of NZ\$12.3M.

Group's investment in associates comprise:

		INTEREST HELD	
		2011	2010
NHC Group Pty Limited	Audiology	-	6.5%

Summary of aggregated financial information for equity accounted investments, all of which are unlisted, are as follows:

	AUDIOLOGY ¹ SECTOR 2011 \$000	AUDIOLOGY SECTOR 2010 \$000
Assets	28,879	323,215
Liabilities	28,923	210,078
Equity	(44)	113,137
Revenues	20,808	110,218
Profit/(Loss) ²	(12,782)	4,922

¹ Audiology sector consists of investments in Bay International Limited, Bay Audio Pty Limited, Bay Audiology (Hong Kong) Limited, Bay Audiology (Singapore) Pty Limited, Bay Audiology (Malaysia) SDN. BHD and Bay Audiology (Taiwan) Limited.

² During the financial year the Bay International Group derecognised deferred tax assets of NZ\$6.2M. The Bay International Group remains entitled to utilise the related tax losses and these will be offset against future taxable profits.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP 2011		GROUP 2010	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest-rate swaps - cash flow hedges	-	146	-	-
	-	146	-	-
Less non-current portion				
Interest-rate swaps - cash flow hedges	-	146	-	-
	-	146	-	-
CURRENT PORTION	-	-	-	-

Interest-rate swaps

The notional principal amounts of outstanding interest-rate swap contracts at 31 May 2011 were \$7.5M (2010: NIL).

At 31 May 2011 the fixed rate was 4.77% and the floating rates are BKBM.

NOTES TO THE FINANCIAL STATEMENTS

13. TRADE AND OTHER RECEIVABLES

	Note	GROUP		COMPANY	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current					
Trade receivables		10,875	9,751	-	-
Prepayments		1,177	1,478	50	39
Other receivables		369	632	33	18
Owing from subsidiaries	25	-	-	32,992	26,291
		12,421	11,861	33,075	26,348
Non-Current					
Owing from related parties		1,310	1,008	-	-
Other non-current receivables	25	11,544	4,085	11,544	4,085
		12,854	5,093	11,544	4,085
Impaired trade and other receivables					
Neither past due or impaired		9,304	8,623		
Past due but not impaired		3,163	2,594		
Impaired		317	912		
Gross		12,784	12,129		
Less provision for impairment of receivables		[363]	[268]		
		12,421	11,861		

Movement on the provision for impairment of trade receivables are as follows:

Opening balance	262	793
Provision for doubtful debt recognised during the year	137	19
Release of over accrued doubtful debt in prior year	13	(70)
Adjustment for sale of subsidiary	(29)	(463)
FX movement	(35)	-
Receivables written off during the year as uncollectable	15	(17)
Closing balance	363	262

There is no concentration of credit risk with respect to trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED INCOME TAX

The net movement in deferred tax assets and liabilities during the year is as follows:

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Balance at start of year	479	3,378	241	648
Acquisition of subsidiary	42	-	-	-
Charge to equity (cashflow hedges)	41	(573)	41	(509)
FX movement	(8)	(10)	-	-
Disposed on sale of subsidiary	-	(1,568)	-	-
Recognition of tax losses	882	-	2,286	-
Income statement charge	(109)	(748)	(97)	102
Balance at end of year	1,327	479	2,471	241

Deferred tax assets/(liabilities) are attributable to the following:

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Property, plant and equipment	(1,059)	(794)	16	9
Employee benefits	1,273	1,152	128	232
Trade and other receivables	111	73	-	-
Trade and other payables	79	48	-	-
Benefit of tax loss recognised	882	-	2,286	-
Other items	41	-	41	-
	1,327	479	2,471	241

Changes to the income statement are attributable to the following:

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Movement in				
Property, plant and equipment	(265)	(344)	7	12
Employee benefits	121	(169)	(104)	90
Trade and other receivables	38	53	-	-
Trade and other payables	31	(298)	-	-
Other items				
Acquisition of subsidiary	(42)	-	-	-
FX movement	8	10	-	-
	(109)	(748)	(97)	102

15. INVENTORIES

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Raw materials and consumables	3,885	3,347	-	-
Work in progress	188	137	-	-
Finished goods and goods for sale	1,510	1,541	-	-
	5,583	5,025	-	-

The Group has recognised a loss of \$12,000 (2010: \$5,000) in respect of inventories written down. The loss has been included in Patient Consumables and Cost of Products Sold in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

16. SHARE CAPITAL

	NOTE	NUMBER OF SHARES 000	ORDINARY SHARES \$000	TREASURY SHARES \$000	TOTAL \$000
At 31 May 2009		23,233	56,115	(918)	55,197
Executive compensation scheme - value of services provided	24	-	53	-	53
Dividend Reinvestment Plan - shares issued		573	3,397	-	3,397
Share Buy Back scheme - shares reacquired	18	(2,909)	(17,700)	401	(17,299)
At 31 May 2010		20,897	41,865	(517)	41,348
Executive compensation scheme - value of services provided	24	-	53	-	53
Share cancellation - shares reacquired		(5,225)	(27,606)	177	(27,429)
At 31 May 2011		15,672	14,312	(340)	13,972

As at 31 May 2011 there were 15,671,992 ordinary shares on issue (2010: 20,896,287). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. There is no other class of share issued.

During the year, the following share transactions took place:

Share Cancellation

On 12 January 2011 the Group proceeded with the High Court and shareholders approved cancellation of 1 in every 4 shares held by all shareholders. Payment of \$5.23 for each share cancelled was made to shareholders on 20 January 2011. A total of 5,224,295 shares were cancelled at a cost of \$27.4M. 15,671,992 shares were on issue following the cancellation.

Prior Year

Dividend Reinvestment Plan

Under the Dividend Reinvestment Plan (DRP), applied to the dividend paid on 2 December 2009, 572,897 shares were issued at \$5.93 per share. The issue price was determined, in accordance with the DRP, as the volume weighted average sale price for all Abano shares sold on the NZX over the five trading days immediately following the record date of 17 November 2009, less a 2.5% discount.

Share Buy Back Scheme

On 23 December 2009 the Group declared unconditional and proceeded with the settlement of its share buyback offer. The offer, which closed on 18 December 2009, received acceptances in respect of 2,909,218 ordinary shares (representing 11.6% of the market value of all shares on issue at the time shareholders were first notified of the acquisition).

Although this level of acceptance was less than the minimum acceptance condition set out in the Offer Document (being 3,761,097 shares or 15% of the market value of all shares on issue at the time shareholders were first notified of the acquisition), the Board, as permitted by the Offer Document, waived the minimum acceptance condition and declared the offer unconditional.

The acquired shares were purchased at the offer price of \$5.93 per share, representing an aggregate acquisition amount of \$17.3 million.

NOTES TO THE FINANCIAL STATEMENTS

17. EARNINGS PER SHARE

	GROUP	
	2011 \$000	2010 \$000
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares on issue during the year		
Profit attributable to equity holders of the Company		
Continuing operations prior to impairment	(1,359)	3,205
Continuing operations	(1,359)	(1,316)
Discontinued operations	12,823	78,262
Weighted average number of ordinary shares on issue	18,907	22,248
Basic earnings per share (cents)		
Continuing operations prior to impairment	(7.19)	14.40
Continuing operations	(7.19)	(5.92)
Discontinued operations	67.82	351.77
	60.63	345.85

18. DIVIDENDS - ORDINARY SHARES

			GROUP		COMPANY	
	2011 Cents	2010 Cents	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Interim dividend for the year ended 31 May 2011	7.3	-	1,158	-	1,158	-
Final dividend for the year ended 31 May 2010	13.7	-	2,893	-	2,893	-
Interim dividend for the year ended 31 May 2010		52.0		12,223	-	12,223
Final dividend for the year ended 31 May 2009		12.0		2,869	-	2,869
Dividends paid to minority interests		-	3,215	1,704		-
	21.0	64.0	7,266	16,796	4,051	15,092

Dividends are paid in cash in accordance with the dividend policy of the Group. The dividends were fully imputed.

Supplementary dividends of \$45,541 (2010: \$219,103) were paid to shareholders not tax resident in New Zealand of which the Company received a foreign investor tax credit entitlement.

Prior Year

The interim dividend for the year ended 31 May 2010 included a special interim dividend paid in December 2009 following settlement of the sale of Bay Audiology Limited. If adjusted, the dividend was effectively 7.3 cents per share for the six month period. For the financial year ended 31 May 2010, the Company altered its annual dividend policy from 50% of Net Profit after Tax and paid a dividend equivalent to 21 cents per share. The final dividend of 13.7 cents per share was paid in August 2010 and carried imputation credits.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current borrowings				
Bank overdraft	231	113	231	113
Unsecured loans	1,956	436	-	-
	2,187	549	231	113
Non-current borrowings				
Secured bank loans	41,544	18,785	14,250	2,750
Unsecured loans	562	630	-	-
	42,106	19,415	14,250	2,750
Term schedule				
Later than one year, less than two	67	67	-	-
Later than two years, less than five	41,923	19,125	14,250	2,750
Over five years	116	223	-	-
	42,106	19,415	14,250	2,750

Bank borrowings are secured by way of a general security agreement over the Group's assets and undertakings.

During the year the Group reduced its \$60M term debt facility with ASB Bank to \$25M. The initial term of four years was extended by one year, as allowed for under the loan agreement. The facility will mature in February 2012. This facility was undrawn at balance date.

The Group has an additional \$20M facility which matures in March 2013. Remaining funds of \$5.8M were undrawn at balance date. The current interest rate on this facility is 3.44%.

The Group currently has a AUD \$25M term debt facility with CBA Bank in Australia with an initial term of five years, maturing July 2013. This facility is ringfenced as a dedicated facility to fund the acquisition growth of Dental Partners Pty Limited and is secured against the assets of that company.

The facility consists of four tranches with the following values and interest rates:

\$6.5M (AUD \$5M)	5.69%
\$5.2M (AUD \$4M)	5.50%
\$9.3M (AUD \$7.1M)	6.45%
\$5.2M (AUD \$4M)	6.69%

Remaining funds of \$1.0M (AUD \$0.7M) were undrawn on a floating interest rate of 6.4% at balance date.

On 8 July 2011 an additional AUD \$30M debt facility was established with CBA Bank in Australia, with an initial term of 5 years, maturing in June 2015. This facility is ringfenced as a dedicated facility to fund the acquisition growth of Dental Partners Pty Limited and is secured against the assets of this company.

The Group's overdraft facilities have a limit of \$1M, with a current interest rate of 5.4%.

Both the ASB and CBA facilities are subject to cash flow based covenants. The Group has complied with these covenants at all stages during the year.

All of the group's borrowings, excluding unsecured loans and the AUD fixed rate tranches, are subject to cash flow interest rate risk as floating interest rates are reset as market rates change. The exposure to interest rate changes and the contractual repricing dates are shown on the following table.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS CONTINUED

	WITHIN 1 YEAR \$000	1-5 YEARS \$000	OVER 5 YEARS \$000	TOTAL \$000
As at 31 May 2011				
Total borrowings	231	15,228	-	15,459
Effect of interest-rate swaps (note 12)	-	(7,500)	-	(7,500)
	231	7,728	-	7,959
As at 31 May 2010				
Total borrowings	113	7,560	-	7,673
Effect of interest-rate swaps (note 12)	-	-	-	-
	113	7,560	-	7,673

20. DEFERRED ACQUISITION CONSIDERATION

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current deferred acquisition consideration				
Acquisition retention amounts	462	420	-	-
Acquisition earn-out liabilities	458	2,531	-	-
	920	2,951	-	-
Non-current deferred acquisition consideration				
Acquisition retention amounts	543	797	-	-
Acquisition earn-out liabilities	3,449	1,995	-	-
	3,992	2,792	-	-
Term schedule				
Later than one year, less than two	2,039	883	-	-
Later than two years, less than five	1,823	1,909	-	-
Over five years	130	-	-	-
	3,992	2,792	-	-

Acquisition retention amounts represent the portion of the purchase price of dental acquisitions withheld from the vendor as security for the performance of the business for a certain period after acquisition. The funds are paid to the vendor at the expiry of this term, only if the practice performed to forecast during this time. No interest is payable on these amounts.

Acquisition earn-out liabilities represent management's forecast of amounts due to vendors of dental acquisitions for future performance in excess of the agreed targets at the date of acquisition.

21. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current				
Accounts payable	6,651	5,566	61	63
Employee entitlements	7,266	6,322	1,081	839
Directors' fees	26	23	25	18
Finance leases	1,149	920	-	-
Sundry creditors and accruals	4,823	3,679	115	124
	19,915	16,510	1,282	1,044
Non-current				
Finance leases	6,900	4,333	-	-
Employee entitlements	153	186	-	-
	7,053	4,519	-	-

NOTES TO THE FINANCIAL STATEMENTS

22. LEASES

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
OPERATING LEASES				
Non-cancellable operating lease obligations				
Not later than one year	8,386	7,847	41	124
Later than one year, not later than five	18,600	15,122	-	41
Later than five years	738	3,091	-	-
Total lease commitments	27,724	26,060	41	165

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
FINANCE LEASES				
Non-cancellable finance lease obligations				
Not later than one year	1,747	1,319	-	-
Later than one year, not later than five	7,522	5,171	-	-
Later than five years	863	-	-	-
Total gross lease commitments	10,132	6,490	-	-
Future finance charges on finance leases	[2,083]	[1,237]	-	-
Present value of finance lease liabilities	8,049	5,253	-	-
Present value of finance lease liabilities is as follows:				
Not later than one year	1,149	920	-	-
Later than one year, not later than five	6,072	4,333	-	-
Later than five years	828	-	-	-
	8,049	5,253	-	-

The Group leases premises, motor vehicles and plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of motor vehicles or plant and equipment held under operating leases.

23. COMMITMENTS AND CONTINGENCIES

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Amount committed to capital expenditure	761	44	-	-

As at 31 May 2011 the Group has capital commitment in relation to the purchase of plant and equipment for the following subsidiaries:

Dental Partners Pty Limited	\$627,861	(AUD\$480,000)
Lumino Dental Limited	\$131,748	
Abano Rehabilitation Limited	\$1,739	
	\$761,348	

Potential Legal Claim

The directors are aware of a pending legal claim against Abano Rehabilitation Limited brought by current and former staff in relation to sleepover payrates. The litigation against Abano Rehabilitation will not proceed until the Supreme Court have ruled on the appeal brought by Idea Services against the finding of the Court of Appeal. Abano Rehabilitation Limited has legal representation and having carefully considered the pending claim, the directors do not believe that a provision for a loss is warranted.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE BASED PAYMENTS

2008 Executive Share Scheme

On 25 November 2008 shareholders approved the Executive Share Scheme (the Scheme). The Scheme consists of an incentive share scheme and an outperformance share scheme. The Scheme provides for certain employees to be issued shares (Share Scheme Shares), for which the Company provides an interest free loan. 203,097 Share Scheme Shares were issued on 1 December 2008, at \$4.52 per share, being the volume weighted average price over the previous twenty trading days. A loan of \$918,000 was provided to employees on this date to acquire the Share Scheme Shares.

The employees do not become entitled to keep the Share Scheme Shares until certain performance criteria are met, and the employees remain in employment with the Company for the term of the Scheme. The Scheme covers a term of three years, and provides three separate performance targets to be achieved during each of those years.

The Company holds call options over the Share Scheme Shares which may be exercised over all or part of the Share Scheme Shares if performance criteria are not met. If a call option is exercised by the Company, the proceeds are applied to the outstanding loan owed by the employees for the initial purchase of the shares.

The employees hold put options which may be exercised at the end of the Scheme at a price of \$4.52 per share. The proceeds from the exercising of the put options are to be used to repay any outstanding loan. If the employee exercises the put option, they become entitled to a performance bonus equal to the amount of the value of the put option.

The fair value of the employee's option to receive shares at the end of the Scheme at the issue price of \$4.52 has been valued using the Black Scholes model. The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was \$0.82 per option. The significant inputs into the model were weighted average share price of \$4.01 at the grant date, exercise price shown above, volatility of 44.5%, an expected option life of three years, and an annual risk-free interest rate of 5.99%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

The option was valued at \$149,094 and the Group is amortising this value over the period of service. During the current year \$52,800 was charged to the income statement as executive remuneration.

The shares held under the Executive Share Scheme participated in the Share Buyback Scheme and the Share Cancellation (refer note 16). Proceeds from both transactions are held in trust by the Group subject to the performance targets being met.

GRANT DATE	EXPIRY DATE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	SHARE CANCELLATION/ BUY BACK SCHEME	EXERCISED DURING THE YEAR	BALANCE AT END OF THE YEAR
31 May 2011						
1-Dec-08	31-May-11	135,398	-	(33,849) ¹	-	101,549
TOTAL		135,398	-	(33,849)	-	101,549
31 May 2010						
1-Dec-08	31-May-11	203,097	-	(67,699) ²	-	135,398
TOTAL		203,097	-	(67,699)	-	135,398

¹ Share cancellation in January 2011 (refer note 16).

² Share buy back in December 2009 (refer note 16).

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED-PARTY INFORMATION

The Group has related-party transactions with its subsidiaries (see note 10), associates and jointly controlled entities (see note 11) and with its directors and executive officers.

Related-party transactions

Mr P Hutson, Mrs A Hutson and Mr S Wright (the "Hutson interests") are all parties related to Abano and had interests in the sale of the shareholding in NHC Group Pty Limited and the ongoing operations of Bay International Limited.

Sale of Investment in NHC Group Pty Limited

In November 2009 the Group and the Hutson interests elected to invest, on a 50:50 basis, NZ\$30M to acquire a 13% shareholding in NHC Group Pty Limited ("NHC"). Following the sale of NHC in December 2010 (refer note 11) both parties each received, after repayment of NHC's enterprise debt, sale costs and closing adjustments, sale proceeds of NZ\$27.7M.

Bay International Limited

The Hutson interests hold a 50% shareholding in Bay International Limited with consequential shareholding, employment, logistical and governance arrangements. The operations of Bay International Limited and its subsidiaries are funded by the Group and the Hutson interests on a 50:50 basis.

Share Cancellation

Interests associated with the Hutson interests wholly own Healthcare Industry Limited ('HIL'), which prior to the share cancellation in January 2011 (refer note 16) held 3,049,929 (14.60%) of the shares in Abano Healthcare Group Limited ('Abano'). Subsequent to the share cancellation HIL's shareholding in Abano was reduced to 2,287,447 shares (14.60%).

Other related party transactions

The Group provides funding to Bay International Limited, on a 50:50 basis with the Hutson interests, via a shareholder loan. The balance of the loan at 31 May 2011 was \$11.5M (2010: \$4.1M).

The Group leases premises from interests associated with Mr M Timoney who is an associated persons through a directorship of, and an indirect shareholding in, Dental Partners Pty Limited. During the year rentals totaling \$348,000 (2010: \$277,200) were paid by the Group. No monies were owed by the Group at 31 May 2011 (2010: nil) and the lease was carried out at arms length and on normal commercial terms. Mr Timoney also has an interest in Kingbeck Pty Limited, to whom the Group paid dentist commissions and reimbursed expenses during the year totaling \$1,207,000 (2010: \$1,270,549). The Group owed Kingbeck Pty Limited \$52,000 (2010: nil) at year end.

The Group leases premises from interests associated with Mr D Garofalo who is an associated person through a directorship of, and an indirect shareholding in, Dental Partners Pty Limited. During the year rentals totaling \$90,000 (2010: 39,023) were paid by the Group. No monies were owed by the Group at 31 May 2011 (2010: Nil) and the lease was carried out at arms length on normal commercial terms.

The Group has loans to the following persons for the purchase of shares in Ascot Radiology Limited: Dr P Weeks \$307,000 (2010: \$309,000), Dr A Doyle \$309,000 (2010: \$310,000), Dr D Davies-Payne \$230,000 (2010: \$231,000), Dr S Urry \$157,000 (2010: \$158,000), Dr G Anderson \$162,000 (2010: nil) and Dr S Vogel \$135,000 (2010: nil). All are parties related to Abano. The loans are to be repaid from future dividends of Ascot Radiology Limited.

The Group utilises the services of CME Radiology Services Limited for the provision of radiology services, rental of radiology equipment and management services. Dr D Rogers and Dr D Milne (minority shareholders in Ascot Radiology Limited) hold interests in CME Radiology Services Limited and are associated persons. During the year services to the value of \$740,000 (2010: \$914,000) were provided by CME Radiology Services Limited. There was no balance owed by the Group at 31 May 2011 (2010: nil).

The Group utilises the services of El Rayo X Limited for the provision of radiology services. Dr P Weeks (minority shareholder in Ascot Radiology Limited) holds an interest in El Rayo X Limited and is a related party. During the year services to the value of \$228,000 (2010: \$219,000) were provided by El Rayo X Limited. There is no balance owed by the Group at 31 May 2011 (2010: nil).

The Group utilises the services of RND Services Ltd for the provision of radiology services. Dr R Davies (minority shareholder in Insight Radiology Limited) holds an interest in RND Services Ltd and is a related party. During the year services to the value of \$243,000 (2010: \$324,000) were provided by RND Services Ltd. There is no balance owed by the Group at 31 May 2011 (2010: nil).

Valley Diagnostics Laboratories Limited (VDL) has a 45% shareholding in Aotea Pathology Limited. At 31 May 2011 VDL's shareholder current account balance was \$1,888,000 receivable from Aotea (2010: \$374,000 receivable).

Transactions between the Company and its subsidiaries include cash advances, expenditure recharges and the provision of management services. At year end a balance of \$32.79M owed by subsidiaries (2010: \$26.06M).

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED-PARTY INFORMATION CONTINUED

The key management compensations are as follows:

	GROUP		COMPANY	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Key management compensation¹				
Short-term benefits	5,724	5,994	1,839	2,028
Other long-term benefits	204	204	204	204
Share-based payments	53	53	53	53
	5,981	6,251	2,096	2,285

¹ Key management consists of the executive team of the Company and its subsidiaries.

An interest free loan is provided to employees of the Company under the Executive Share Scheme (refer note 24). The balance of the loan at 31 May 2011 was \$918,000 (2010: \$918,000).

26. SUBSEQUENT EVENTS

AMALGAMATION OF SUBSIDIARIES

On 1 June 2011 Orthotic Centre (Midland) Limited and Orthotic Centre (Wellington) Limited were amalgamated with Orthotic Centre (NZ) Limited. The Group held a 100% shareholding in all three companies.

DIRECTOR APPOINTMENT

On 5 July 2011 Eduard van Arkel was appointed to the board of Abano Healthcare Group Limited by the current directors, as permitted by Abano's constitution, and will hold office until Abano's 2011 annual meeting at which time he will offer himself for election by shareholders. The Board has determined that Mr van Arkel is an Independent Director (for the purposes of NZSX Listing Rule 3.3.2).

BUSINESS ACQUISITIONS

The Group has acquired five dental practices since balance date and they are:

Profile Ortho (Queensland)	1 Jun 2011
Keri Dental Centre (Kerikeri)	3 Jun 2011
Feldbusch Dental (New South Wales)	7 Jun 2011
Sapsford Dental Surgery (Mosgiel)	24 Jun 2011
Rotorua Dental Centre (Rotorua)	30 Jun 2011

Summary of the effect of the acquisitions:

	DENTAL \$000
Fair value of net assets acquired:	
Current assets	493
Current liabilities	(110)
Non-current liabilities	-
Non-current assets	842
Goodwill on acquisition	2,403
Consideration paid	3,628
Deferred acquisition consideration	514
Total consideration	4,142
Goodwill on acquisition	2,403
Deferred acquisition consideration	513
Total goodwill recognised	2,916
Annualised information	
Revenue	7,513
EDITDA	1,429

NOTES TO THE FINANCIAL STATEMENTS

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

New standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) and the Accounting Standards Review Board in New Zealand (ASRB) that are mandatory for future periods and which the Group will adopt when they become mandatory. These new standards, amendments and interpretations include:

- **IAS 24, Related Party Disclosures', (effective from 1 January 2011)**

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the Group applies this standard from 1 June 2011 it is not expected to have a material impact.

- **IAS 1, Financial statement presentation, (effective from 1 January 2012)**

The revised standard is likely to require presentation of net income and OCI, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, management will be required to change the format of the OCI section to separate items that might be recycled from items that will not be recycled. The proposed changes will not affect the measurement of net profit or earnings per share; however, they will change the way the results are presented. When the Group applies this standard from 1 June 2011 it is not expected to have a material impact.

- **NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in other Entities and revised NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013)**

NZ IFRS 10 introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present.

NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate is no longer permitted. Parties to a joint operation will continue to account their share of revenues, expenses, assets and liabilities.

NZ IFRS 12 sets out the required disclosures for entities reporting under NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in IAS 28.

NZ IAS 27 is renamed Separate financial statements and is a standard dealing solely with separate financial statements.

Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa.

When the Group applies these standards from 1 June 2011 it is not expected to have a material impact.

NOTES TO THE FINANCIAL STATEMENTS

27. RECONCILIATION OF OPERATING CASHFLOWS

For the year ended 31 May 2011

	GROUP		COMPANY	
	MAY 2011 \$000	MAY 2010 \$000	MAY 2011 \$000	MAY 2010 \$000
Profit for the period	11,467	76,946	17,985	81,486
Non-cash items:				
Depreciation	5,823	5,849	73	99
Amortisation of intangible assets	469	434	56	54
Utilisation/(recognition) of deferred tax asset	(1,050)	2,163	98	(102)
Interest expense on financial liabilities	-	-	-	(40)
Fair value amortisation on deferred acquisition consideration	286	493	-	493
Foreign investor tax credits recognised	44	219	44	219
Fair value movement on derivatives	-	1,235	-	1,235
Executive compensation expense	53	52	53	52
Share of surplus retained by non controlling interest	2,030	2,001	(1,836)	1,277
Impairment of goodwill/investment	-	4,521	-	4,521
	7,655	16,967	(1,512)	7,808
Movement in working capital:				
(Increase)/decrease in trade and other receivables	(1,220)	17,722	(223)	16
(Decrease)/increase in trade and other payables	4,035	(15,458)	(570)	(1,463)
(Decrease)/increase in deferred income	-	-	-	-
	2,815	2,264	(793)	(1,447)
Items classified as investing activities:				
Realised (gain)/loss on sale of property, plant and equipment	(13)	9	-	-
Realised (gain)/loss on sale of subsidiaries/associates	(12,386)	(77,910)	(12,918)	(81,064)
Dividends received	-	-	(5,290)	(10,850)
Acquisition costs	760	-	-	-
Share of loss in associate	5,790	1,163	-	-
	(5,849)	(76,738)	(18,208)	(91,914)
Net cash flows from operating activities	16,088	19,439	(2,528)	(4,067)

28. FINANCIAL MANAGEMENT RISK

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group financial performance.

The Group's overall financial risk management objectives are to ensure that the Group creates value and maximises returns to its shareholders as well as ensuring that adequate financial resources are available for the development of the Group's business whilst managing its financial risks. It has, and has been throughout the financial year under review, the Group's policy that no trading in financial instruments shall be undertaken. The major areas of financial risks faced by the Group and the information on the management of the related exposures are detailed below:

MARKET RISK

(a) Foreign Exchange Risk

The Group's risk management policy is to hedge 100% of anticipated cash flows (mainly US\$ purchases of inventory for the Rehabilitation sector). The balance of payments for New Zealand and Australian based subsidiaries are made in their respective local currencies.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL MANAGEMENT RISK CONTINUED

No hedging transactions such as forward exchange contracts are entered into to cover offshore assets and liabilities. Exchange differences arising on translation of assets and liabilities of foreign operations are taken directly to Equity. Foreign exchange gains or losses on short-term intercompany advances and borrowings are taken to the Income Statement.

The assets and liabilities in New Zealand are held in NZD and in Australia are held in AUD.

The below table details the Group's sensitivity to the increase and decrease in the AUD against the NZD.

(b) Interest Rate Risk

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's debt obligations with floating interest rates. The Group's policy to manage interest rate risk is to fund ongoing activities with borrowings funded at floating interest rates and the placing of interest rate swap hedges. The Group's policy on hedging is that a minimum of 60% to a maximum of 90% of borrowings are covered by fixed rate interest and/or fixed rate interest swaps.

The below table demonstrates the sensitivity to a reasonably possible change in interest rates by estimated percentage (%), with all other variables held constant, of the Group's profit before tax.

GROUP	CARRYING AMOUNT \$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		1.0%		(1.0%)		10.0%		(10.0%)	
2011		PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
Financial assets									
Cash and cash equivalents	6,678	(67)	(67)	67	67	380	380	(311)	(311)
Accounts receivable	11,244	-	-	-	-	105	105	(86)	(86)
		(67)	(67)	67	67	485	485	(397)	(397)
Financial liabilities									
Interest rate swaps	(146)	(3)	(3)	3	3	-	-	-	-
Trade payables	(18,766)	-	-	-	-	(629)	(629)	515	515
Finance Leases	(8,049)	-	-	-	-	-	-	-	-
Deferred acquisition consideration	(4,912)	49	49	(49)	(49)	(321)	(321)	263	263
Borrowings	(44,293)	443	443	(443)	(443)	(3,033)	(3,033)	2,481	2,481
		489	489	(489)	(489)	(3,983)	(3,983)	3,259	3,259
Total		422	422	(422)	(422)	(3,498)	(3,498)	2,862	2,862
2010									
Financial assets									
Cash and cash equivalents	5,493	(55)	(55)	55	55	122	122	(100)	(100)
Accounts receivable	10,383	-	-	-	-	66	66	(54)	(54)
		(55)	(55)	55	55	188	188	(154)	(154)
Financial liabilities									
Trade payables	(15,595)	-	-	-	-	(442)	(442)	361	361
Finance Leases	(5,253)	-	-	-	-	-	-	-	-
Deferred acquisition consideration	(5,743)	57	57	(57)	(57)	(335)	(335)	274	274
Borrowings	(19,964)	200	200	(200)	(200)	(1,782)	(1,782)	1,458	1,458
		257	257	(257)	(257)	(2,559)	(2,559)	2,093	2,093
Total		202	202	(202)	(202)	(2,371)	(2,371)	1,939	1,939

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL MANAGEMENT RISK CONTINUED

COMPANY	CARRYING AMOUNT \$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		1.0% PROFIT	(1.0%) EQUITY	(1.0%) PROFIT	(1.0%) EQUITY	10.0% PROFIT	(10.0%) EQUITY	10.0% PROFIT	(10.0%) EQUITY
2011									
Financial assets									
Cash and cash equivalents	1,462	(15)	(15)	15	15	-	-	-	-
		(15)	(15)	15	15	-	-	-	-
Financial liabilities									
Interest rate swaps	(146)	(3)	(3)	3	3	-	-	-	-
Borrowings	(14,481)	145	145	(145)	(145)	-	-	-	-
		142	142	(142)	(142)	-	-	-	-
Total		127	127	(127)	(127)	-	-	-	-
2010									
Financial assets									
Cash and cash equivalents	2,884	(29)	(29)	29	29	-	-	-	-
		(29)	(29)	29	29	-	-	-	-
Financial liabilities									
Borrowings	(2,863)	29	29	(29)	(29)	-	-	-	-
		29	29	(29)	(29)	-	-	-	-
Total		-	-	-	-	-	-	-	-

Interest rate swaps

At 31 May 2011 the fixed rate swaps are 4.77% (2010: NIL) and the floating rates are BKBM.

Foreign exchange forward contract

The Group has exposure to foreign currency risk as a result of transactions denominated in USD from normal trading activities. The foreign exchange contract expired in May 2011.

Liquidity Risk

Individual operating entities within the Group are responsible for their own cash management. Short term investment of cash surpluses and the raising of loans to cover expected cash demands, are arranged and negotiated by the Company.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at balance date of the Group's and the Company's financial liabilities and net settled derivative financial instruments, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL MANAGEMENT RISK CONTINUED

GROUP			
2011	LESS THAN 1 YEAR \$000	BETWEEN 1 & 5 YEARS \$000	MORE THAN 5 YEARS \$000
Financial liabilities			
Borrowings	365	49,849	137
Trade and other payables	19,915	6,225	828
Derivative financial instruments	145	434	103
Deferred acquisition consideration	2,221	1,729	130
Total	22,646	58,237	1,198

2010			
Financial liabilities			
Borrowings	241	22,979	365
Trade and other payables	16,063	4,519	-
Derivative financial instruments	-	-	-
Deferred acquisition consideration	883	1,909	-
Total	17,187	29,407	365

COMPANY			
2011	LESS THAN 1 YEAR \$000	BETWEEN 1 & 5 YEARS \$000	MORE THAN 5 YEARS \$000
Financial liabilities			
Borrowings	243	15,271	-
Trade and other payables	1,279	-	-
Derivative financial instruments	145	434	103
Total	1,667	15,705	103

2010			
Financial liabilities			
Borrowings	119	3,043	-
Trade and other payables	204	-	-
Derivative financial instruments	-	-	-
Total	323	3,043	-

CREDIT RISK

Credit risk is managed on a sector by sector 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 trade, government and public customers, including outstanding trade receivables and committed transactions. Only major banks and financial institutions are accepted for bank deposits or derivative financial instruments.

The concentration of credit risk in respect of trade receivables are limited due to the Group's large number of customers who are dispersed over a broad spectrum of society.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL MANAGEMENT RISK CONTINUED

Capital Management Risk

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the year ended 31 May 2011. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group includes within net debt, borrowings and term liabilities less cash and cash equivalents. Total equity includes capital and retained earnings attributable to the equity holders of the Parent.

The gearing ratios at 31 May 2011 and 2010 were as follows:

GROUP

	2011 \$000	2010 \$000
Financial liabilities		
Bank borrowings	42,337	19,528
Other borrowings	1,956	436
Term liabilities	11,840	7,716
Less cash and cash equivalent	(6,678)	(5,493)
Net Debt	49,455	22,187
Capital and retained earnings	89,843	109,585
Reserves	(1,511)	(92)
Total Equity	88,332	109,493
Equity and Net Debt	137,787	131,680
Gearing Ratio	35.9%	16.8%

COMPANY

	2011 \$000	2010 \$000
Financial liabilities		
Bank borrowings	14,481	2,863
Other borrowings	-	-
Term liabilities	146	-
Less cash and cash equivalent	(1,462)	(2,884)
Net Debt	13,165	(21)
Capital and retained earnings	74,088	87,443
Reserves	(105)	-
Total Equity	73,983	87,443
Equity and Net Debt	87,148	87,422
Gearing Ratio	15.1%	(0.02%)

Due to significant transactions during the year, including the share cancellation, the Group changed the calculation method of the gearing ratio, from net debt divided by total capital plus net debt, to net debt divided by total equity plus net debt. The 2010 comparative above has been restated to show the ratio calculated under this method.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL MANAGEMENT RISK CONTINUED

Financial Instruments by Category

GROUP

	FAIR VALUE THROUGH PROFIT OR LOSS \$000	DERIVATIVES USED FOR HEDGING \$000	LOANS AND RECEIVABLES \$000	TOTAL \$000
Assets per Balance Sheet				
31 May 2011				
Cash and cash equivalents	-	-	6,678	6,678
Trade and other receivables excluding prepayments	-	-	24,098	24,098
	-	-	30,776	30,776
31 May 2010				
Cash and cash equivalents	-	-	5,493	5,493
Trade and other receivables excluding prepayments	-	-	15,466	15,466
	-	-	20,959	20,959

	FAIR VALUE THROUGH PROFIT OR LOSS \$000	DERIVATIVES USED FOR HEDGING \$000	MEASURED AT AMORTISED COST \$000	TOTAL \$000
Liabilities per Balance Sheet				
31 May 2011				
Borrowings	-	-	44,293	44,293
Finance leases	-	-	8,049	8,049
Trade and other payables	-	-	18,919	18,919
Deferred acquisition consideration	-	-	4,912	4,912
Derivative financial instruments	-	146	-	146
	-	146	76,173	76,319
31 May 2010				
Borrowings	-	-	19,964	19,964
Finance leases	-	-	5,253	5,253
Trade and other payables	-	-	15,776	15,776
Deferred acquisition consideration	-	-	5,743	5,743
	-	-	46,736	46,736

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL MANAGEMENT RISK CONTINUED

COMPANY

	FAIR VALUE THROUGH PROFIT OR LOSS \$000	DERIVATIVES USED FOR HEDGING \$000	LOANS AND RECEIVABLES \$000	TOTAL \$000
Assets per Balance Sheet				
31 May 2011				
Cash and cash equivalents	-	-	1,462	1,462
Trade and other receivables excluding prepayments	-	-	44,569	44,569
	-	-	46,031	46,031
31 May 2010				
Cash and cash equivalents	-	-	2,884	2,884
Trade and other receivables excluding prepayments	-	-	30,162	30,162
	-	-	33,046	33,046

	FAIR VALUE THROUGH PROFIT OR LOSS \$000	DERIVATIVES USED FOR HEDGING \$000	MEASURED AT AMORTISED COST \$000	TOTAL \$000
Liabilities per Balance Sheet				
31 May 2011				
Borrowings	-	-	14,481	14,481
Trade and other payables	-	-	1,282	1,282
Derivative financial instruments	-	146	-	146
	-	146	15,763	15,909
Liabilities per Balance Sheet				
31 May 2010				
Borrowings	-	-	2,863	2,863
Trade and other payables	-	-	1,044	1,044
	-	-	3,907	3,907

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER

As at 31 May 2011, the following directors had made general disclosures in the interests register of the company. Notices given or adjusted during the financial year ended 31 May 2011 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between the company and its subsidiaries and the disclosed entity.

DIRECTOR	ENTITY	INTEREST
T.D. Janes	Accident Compensation Corporation, Investment Committee of the Board* (resigned January 2011)	Member
	Esprit Vineyard Limited* (resigned January 2011)	Director/Shareholder
	LPF Group Limited and subsidiaries	Director/Shareholder
	MFAT Overseas Development Assistance Advisory Board*	Advisory Board Member
	Mighty River Power Limited	Deputy Chairman
	NZ Post Network Access Committee*	Advisory Board Member
	ProCare Health Limited	Director
	Rovert Investments Limited	Director/Shareholder
	RWC Broadcasters Governance Group*	Member
	Salvus Strategic Investment Limited* (resigned December 2010)	Chairman
	Selenium Corporation Limited	Director/Shareholder
	The Public Trust	Chairman
	A.M. Paterson	Ambulance New Zealand, Stakeholders Committee
BPAC NZ Limited		Chairman
Farm IQ Systems Limited		Chairman
Massey University Council		Pro Chancellor
Metro Water Limited* (resigned November 2010)		Director
Nga Pae o Te Maramatanga		Board Member
NZ Markets Disciplinary Tribunal		Member
Stevenson Group Limited		Deputy Chair
Stevenson Agriculture Limited		Chairman
University of Auckland, Governing Board, National Research Centre for Growth & Development		Chairman
Vector Limited and its subsidiaries		Director
Works on Paper Limited*	Director/Shareholder	
S.M. Paterson	Airways Corporation of New Zealand Limited and subsidiaries	Deputy Chairman
	Electricity Authority*	Board Member
	GMT Bond Issuer Limited	Director
	GMT Wholesale Bond Issuer Limited*	Director
	Goodman (NZ) Limited and subsidiaries	Director
	Housing New Zealand Limited	Director
	Indoor Sports and Leisure Centre Limited*	Director
	International Accreditation NZ*	Council Member
	Les Mills NZ Limited	Director
	NZ Ecolabelling Trust	Trustee
	Scripts Limited	Director
Theta Systems Limited	Chairman	
A.W. Clarke	Auckland City Surgical Services Limited	Director
	Edtech Limited	Shareholder
P.L. Hutson ¹	ABA Nominees Limited	Director/Shareholder
	Audiology South Limited	Director/Shareholder
	Bay International Limited and subsidiaries	Director/Shareholder
	Healthcare Industry Limited	Director/Shareholder
D.Chan	A1 Flower Wholesalers Limited	Director/Shareholder
	Academic Colleges Group Limited and subsidiaries	Director/Shareholder
	Agresearch Limited and subsidiary	Director

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER CONTINUED

DIRECTOR	ENTITY	INTEREST
D.Chan continued	Aire Cut Company Limited	Director/Shareholder
	Alpha Asset Management Limited	Director/Shareholder
	ARN Investments Limited	Director/Shareholder
	ASPEQ Limited and subsidiaries	Director
	Aviation English Services	Director
	Bio Pacific Management Limited	Director
	Danting Investments Limited	Director/Shareholder
	East Horizon Limited	Director/Shareholder
	Education Investment Limited	Director/Shareholder
	Flowerzone International Limited and subsidiaries	Director/Shareholder
	Guardall NZ Limited and subsidiaries* (resigned as director April 2011)	Shareholder
	Green Cut Limited	Director/Shareholder
	Griff Trading Limited	Director/Shareholder
	Lady White Snake Film Limited	Director/Shareholder
	Orient Group Limited and subsidiary	Director/Shareholder
	Orient NZ Property (Victoria Street) Limited	Director
	Orient Pacific Corporation Limited	Director/Shareholder
	Orient Pacific Investments Limited	Director/Shareholder
	Orient Pacific Management Limited	Director/Shareholder
	Orpac International Limited	Director/Shareholder
	Phytagro LLC	Director
	Planit Products NZ Limited	Director/Shareholder
	Pot Plant Shop Limited	Director/Shareholder
	Rhino Security Limited and subsidiaries	Director/Shareholder
	Sharp Multi-Media Productions Limited	Director/Shareholder
	Sunwave Enterprises Limited	Director/Shareholder
	Tahere Callas Limited and subsidiary	Director/Shareholder
	Talafor Investments Limited and subsidiary	Director/Shareholder
	The Academic Coaching School Limited	Director/Shareholder
	Turners Flower Exports NZ Limited	Director/Shareholder

¹ Peter Hutson's shareholdings are held indirectly in his capacity as a trustee of various trusts and through Healthcare Industry Limited.

ADDITIONAL STATUTORY INFORMATION

DIRECTORS' SHARE DEALINGS

During the year the directors named below participated in share cancellation and disclosed the following disposal of relevant interests in ordinary shares of the Company.

	NUMBER OF SHARES	CONSIDERATION PER SHARE	DATE OF DISPOSAL
A.W. Clarke ¹	58,746	\$5.23	25-Jan-11
P.L. Hutson ^{1,2}	762,482	\$5.23	25-Jan-11

¹ Sale of shares through Abano Group compulsory share cancellation on 25 January 2011.

² Peter Hutson's shareholdings are held indirectly in his capacity as a trustee of various trusts and through Healthcare Industry Limited.

DIRECTORS' SHAREHOLDINGS

As at 31 May 2011

	BENEFICIAL INTEREST		NON-BENEFICIAL INTEREST	
	2011	2010	2011	2010
D. Chan	-	-	-	-
A.W. Clarke	176,237	234,983	-	-
P.L. Hutson	-	-	2,287,447	3,049,929
T.D. Janes	-	-	-	-
P.S. Newland*	-	10,000	-	-
A.M. Paterson	-	-	-	-
S.M. Paterson	-	-	-	-

* Philip Newland resigned 31 March 2010

REMUNERATION OF DIRECTORS

Remuneration and other benefits.

	2011 \$	2010 \$
D. Chan	50,000	39,500
A.W. Clarke	818,689	697,699
P.L. Hutson	303,018	357,523
T.D. Janes	85,000	79,500
P.S. Newland ¹	-	54,625
A.M. Paterson	100,000	79,500
S.M. Paterson	60,000	44,500

* Philip Newland resigned 31 March 2010

ADDITIONAL STATUTORY INFORMATION

REMUNERATION OF EMPLOYEES

The number of employees (excluding directors) within the Group receiving remuneration and benefits above \$100,000 are indicated in the following table:

	GROUP		COMPANY	
	2011	2010	2011	2010
\$100,001 - \$110,000	11	12	-	-
\$110,001 - \$120,000	7	9	-	-
\$120,001 - \$130,000	5	5	-	-
\$130,001 - \$140,000	2	5	-	1
\$140,001 - \$150,000	2	3	-	-
\$150,001 - \$160,000	1	-	-	-
\$160,001 - \$170,000	1	1	-	1
\$170,001 - \$180,000	3	2	-	-
\$180,001 - \$190,000	2	-	1	-
\$190,001 - \$200,000	1	1	-	-
\$201,000 - \$210,000	1	-	-	-
\$210,001 - \$220,000	-	-	-	-
\$220,001 - \$230,000	-	1	-	-
\$230,001 - \$240,000	-	-	-	-
\$240,001 - \$250,000	1	-	-	-
\$250,001 and over	8	8	2	2

The Company has an employment agreement with Mr A.W. Clarke, managing director. The terms and conditions of this agreement have not changed from the prior year. Mr Clarke's agreement provides for a salary of \$473,000 and an at-risk component of up to \$96,000.

The level of remuneration payable under this agreement rendered it a Material Transaction (under NZX Listing Rule 9.2.2(e)) with a related party. The Board complied with and relied on the exception in Listing Rule 9.2.4(c) in approving the agreements which avoids the need for the Company to obtain shareholder approval under Listing Rule 9.2.1.

SUBSIDIARY COMPANY DIRECTORS

The following employees held the office of director in subsidiary companies during the year. Employee directors of subsidiary companies appointed by the Group do not receive directors' fees or other benefits in their capacity as a director.

COMPANY	DIRECTORS			
Abano Dental Limited	A.W. Clarke	R.G. Keys	A.R. Tapper	
Abano Radiology Limited	A.W. Clarke	R.G. Keys	A.R. Tapper	
Abano Rehabilitation Limited	A.W. Clarke	R.G. Keys	A.R. Tapper	
ABA Nominee Limited		R.G. Keys		
Aotea Pathology Limited	A.W. Clarke	R.G. Keys	K.P. Wood	
Ascot Radiology Limited	A.W. Clarke	R.G. Keys	D.G. Milne	D.R. Rogers P.A. Weeks
Dental Partners Pty Limited	A.W. Clarke	R.G. Keys	A.R. Tapper	M. Timoney
Insight Radiology Limited	A.W. Clarke	R.G. Keys	R.N. Davis	
Lumino Dental Limited	A.W. Clarke	R.G. Keys	A.R. Tapper	
Orthotic Centre (NZ) Limited	A.W. Clarke	R.G. Keys	P.D. Ward	
Orthotic Centre (Midland) Limited		R.G. Keys	C. Balasoglou	M. Batters ¹
Orthotic Centre (Wellington) Limited		R.G. Keys	C. Balasoglou	
Wellington Pathology Limited	A.W. Clarke	R.G. Keys		

¹ Michael Batters resigned 7 March 2011

ADDITIONAL STATUTORY INFORMATION

SHAREHOLDER INFORMATION

Twenty largest security holders as at 19 August 2011

	Ordinary shares	% holding
Healthcare Industry Limited	2,287,447	14.6%
TEA Custodians Limited	1,654,918	10.6%
Accident Compensation Corporation	1,108,361	7.1%
Forsyth Barr Custodians Limited	750,928	4.8%
National Nominees New Zealand Limited	480,610	3.1%
Craig John Thompson	450,000	2.9%
Custodial Services Limited	433,501	2.8%
Superlife Trustee Nominees Limited	359,523	2.3%
Sok Eng Boey & Yeow Ann Chiam & Kay Hong Chiam & Shen Mei Chiam	333,560	2.1%
Forsyth Barr Custodians Limited	288,098	1.8%
Rotorua Trust Perpetual Capital Fund Limited	220,000	1.4%
Forsyth Barr Custodians Limited	209,461	1.3%
Alan William Clarke	176,237	1.1%
Clinton Adam Teague	144,553	0.9%
Custodial Services Limited	141,971	0.9%
Grant Michael Novak & Jacqueline Francesca Vervoort & NKS Trustees Limited	135,847	0.9%
Custodial Services Limited	135,413	0.9%
Forsyth Barr Custodians Limited	128,250	0.8%
Willem Jan Kiers	100,050	0.6%
Richard George Keys & Kathryn Keys & Ronald Bruell	91,676	0.6%
TOTAL	9,630,404	61.4%

SPREAD OF SECURITY HOLDERS

As at 19 August 2011

Size of shareholding	Number of holders	Total shares held	% of shares
1 - 4,999	2,036	2,629,138	16.8%
5,000 - 9,999	178	1,174,264	7.5%
10,000 - 49,999	93	1,693,265	10.8%
50,000 - 99,999	8	636,597	4.1%
100,000 - 499,999	15	3,737,074	23.8%
500,000 - 999,999	1	750,928	4.8%
1,000,000 or more	3	5,050,726	32.2%
	2,320	15,671,992	100.0%

ADDITIONAL STATUTORY INFORMATION

SUBSTANTIAL SECURITY HOLDERS

Pursuant to section 26 of the Securities Markets Act 1988, according to filings made to the Company, the substantial security holders of the Company as at 19 August 2011 are:

	Number of shares
Healthcare Industry Limited ¹	3,049,929
Peter Lionel Hutson, Anya Lee Hutson and Lewis Grant ²	3,049,929
Alison McRae Wright, Scott Eric Wright and Kevin David Pitfield ²	3,049,929
ASB Nominees Limited ²	3,049,929
Fisher Funds Management Limited	1,552,181
Blair Tallott ³	1,034,639
Accident Compensation Corporation	1,026,503

¹ All shares held beneficially.

² Comprising non-beneficial interests in 3,049,9293 shares held by body corporate Healthcare Industry Limited.

³ Aggregation of interests in securities held by Blair Tallott and Accident Compensation Corporation (ACC). Blair Tallott is an employee and portfolio manager for ACC. Under current ACC investment policies, he has the discretion to exercise control over the rights to vote and acquisition of disposal of some of all of the securities of which ACC is the beneficial owner.

GLOSSARY

EBITDA	The Group's consolidated Earnings before Interest, Tax, Depreciation and Amortisation of Goodwill and after corporate costs are expensed
EBIT	Earnings before Interest and Tax
NPBT	Net Profit Before Tax
NPAT	Net Profit After Tax
Operating NPAT	Operating Net Profit After Tax
EPS	Earnings Per Share
Operating EPS	Earnings Per Share calculated on operating earnings and excluding one-off gains or losses
IFRS	International Financial Reporting Standards
DHB	District Health Board
MOH	Ministry of Health
ACC	Accident Compensation Corporation
NZX	New Zealand Exchange
NHC	National Hearing Care
NZD	New Zealand Dollar
AUD	Australian Dollar

Unless otherwise stated, all dollar amounts shown are New Zealand dollars.

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