

Abano Healthcare Annual Report 2009



abano healthcare group limited

DIRECTORS

Alison Mae Paterson
Chairman
Appointed 16 October 2002

Trevor David Janes
Deputy chairman
Appointed 23 September 2005

Alan William Clarke
Appointed 31 October 2001

Philip Samuel Newland
Appointed 31 October 2001

Susan Marie Paterson
Appointed 23 September 2005

Peter Lionel Hutson
Appointed 25 November 2008

Danny Chan
Appointed 19 December 2008

Graeme David Edmond
Resigned 31 December 2008

AUDIT COMMITTEE

Trevor Janes (chairman),
Alison Paterson, Danny Chan

REMUNERATION COMMITTEE

Susan Paterson (chairman),
Alison Paterson, Philip Newland

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

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay St, Auckland

SHARE REGISTRAR

Computershare Investor Services
Limited
159 Hurstmere Road
Takapuna, Auckland

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2009 Highlights

2009 was highlighted by a number of successes including:

- A record Net Profit After Tax result of \$9.7 million, generated on revenues of \$187.2 million and an EBITDA of \$31.5 million
- Grew the Lumino The Dentists network in New Zealand to 42 clinics nationwide, through the acquisition of 10 practices including New Zealand's largest single site practice, ProudMouth in the Auckland CBD
- Entered the Australian dental market, launching the Dental Partners brand and growing the network to 18 practices across Australia
- Acquired Dunedin Hearing with six clinics and opened additional Greenfield sites around New Zealand, taking the Bay Audiology network to 64 clinics in New Zealand
- Continued the growth of Bay Audio in Australia which now has 48 permanent and visiting clinics in Queensland and New South Wales
- Entered the Asian audiology market with a small initial investment in audiology clinics in Singapore and Hong Kong
- Acquired speciality obstetric radiology business, Insight Radiology, in New Zealand and increased their 4D Ultrasound capacity
- Opened second Ascot Radiology clinic specialising in breast imaging, and invested in two new 3T MRI machines and other leading edge equipment and technology

Events Since Year End

- Acquisition of Remuera Dental Centre by Lumino The Dentists
- Grew the Dental Partners network through acquisition of a further four dental clinics in New South Wales, Australia - Port Macquarie, Coffs Harbour (2) and Burwood
- Entered the Malaysian audiology market with the acquisition of two stores in Kuala Lumpur
- Bay Audio in Australia opened a further three Greenfield sites in shopping malls at Westfield Carindale in Queensland, Chatswood Chase shopping centre in NSW and Wynnum Plaza in Brisbane

Regions of Business

Audiology

Diagnostics



*Entered Malaysian audiology market in July 2009

Abano is an active investor in and operator of healthcare and medical services businesses.

Listed on the New Zealand Stock Exchange and with a long term Co-Invest and Build business model, Abano has a proven track record of year on year growth and delivery of record earnings results.

Abano has partnerships in multiple businesses across a carefully selected portfolio of healthcare sectors. Alongside the clinical partners, Abano invests time, knowledge and money, unlocking the potential of each business and building its value.

Core to Abano's strategy is assisting and growing these businesses and investing in add-on acquisitions and organic growth.

As at 31 May 2009, Abano had 10 businesses operating 15 brands across four different healthcare sectors, with more than 200 permanent and part-time clinics, practices, laboratories and offices located across New Zealand, Australia and Asia.

Dental



Rehabilitation



Our Performance in 2009

This year, for the first time, we are pleased to provide you with a summary Shareholder Review for the year. This document has been designed to provide you with an overview of our company and our achievements in the 2009 financial year and is a companion document for the more accounts-focused Annual Report. A printed copy of the full Annual Report is available on request or can be viewed online at www.abanohealthcare.co.nz.

Over the past eight years, Abano has produced strong year on year business growth with improving profitability. This has been achieved through our proven long term Co-Invest and Build strategy, where we concentrate our efforts into carefully selected healthcare sectors which are predominately privately funded and offer attractive returns and significant future growth potential.

Dental in New Zealand and Australia, Audiology in Australasia and Asia and Radiology in New Zealand have all been identified as sectors with exciting growth prospects. Abano has multiple businesses in these sectors, some nearing maturity, while others are still in their infancy in markets with considerable potential.

The Group also includes several other excellent businesses in Rehabilitation and Pathology services, as well as our New Zealand based Audiology business, which provide attractive, consistent and profitable returns but in markets with more limited growth and potential.

2009 saw our business become increasingly global with growth and expansion across Australasia and Asia in our Audiology and Dental sectors. While New Zealand remains our biggest geographical base, the Australian and Asian markets now offer considerable potential and will be a significant opportunity for Abano going forward.

We have already entered the Australian market, in both Audiology and Dental, and both these businesses now have solid business platforms in place and are well positioned for continued growth.

Asia also offers significant potential with large populations, a booming middle class and an exploding demand for high quality healthcare. Abano entered the Asian market with a small investment into several audiology businesses in Singapore and Hong Kong in late 2008. Since year end, we have also announced our entry into the Malaysian market with the acquisition of two stores in Kuala Lumpur through our world wide partnership with the Siemens Group. Our retail mall based clinics, developed in Australia using Bay's unique touch screen self testing technology, are proving to be a success in both markets and we see strong growth potential.

2009 was also a year of unprecedented global economic turmoil. As we have stated, the business of healthcare delivery is relatively sheltered; however, growth opportunities were and will continue to be affected as consumers' discretionary spending remains under pressure.

While Abano continues a focus on the delivery of private health services, the Group has a balanced mix of private and

public revenue streams and a regional geographic presence which provides a spread of businesses in a number of economies and the ability to grow profitably in the current economic climate.

For the 2009 year, Abano continued an eight year trend of providing record returns, with revenues of \$187.2 million, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$31.5 million and a Net Profit After Tax (NPAT) of \$9.7 million for the year ended 31 May 2009. These results are all at the top end of the company's revised guidance.

A final dividend of 12 cents per share, with a blended imputation credit of the old and new company tax rates, has been declared for the 2009 year, and was payable in August 2009. The total dividend for the 2009 financial year was 21 cents per share, maintaining the Group's policy of distributing 50 percent of NPAT.

We would like to sincerely thank all our staff, whose expertise, enthusiasm, professionalism and care help to make our businesses the preferred healthcare providers for the thousands of people we diagnose, care for and treat each day.

Our focus on profitable growth and our successful Co-Investment business model has seen increasing interest from healthcare professionals and clinical owners in a number of different disciplines looking to work in partnership with Abano. We are now considered the corporate partner of choice for many entrepreneurial clinicians in the private healthcare and medical services sector.

In December 2008, our business model was recognised at the country's top business awards when Abano was presented with the Best Growth Strategy Award at the Deloitte Management Magazine Top 200 Awards.

We continue to receive strong support from our long term banking partners, ASB Bank in New Zealand and CBA Bank in Australia. These two banks provide term facilities of approximately NZ\$130 million in confirmed funds to draw on and we closed the 2009 year with a net debt position of NZ \$82.2 million.

The 2010 year will be one of continuing achievement for Abano, particularly for our Dental businesses on both sides of the Tasman, our Audiology networks in Australia and Asia and the Radiology operations in New Zealand. We will continue to implement our proven and successful Co-invest and Build strategy with our clinical partners, while keeping a careful eye on the global economy.

Looking forward, Abano is well positioned to maximise value from existing businesses and pursue value adding opportunities, enhancing our shareholders' wealth.



Alison Paterson
Chair

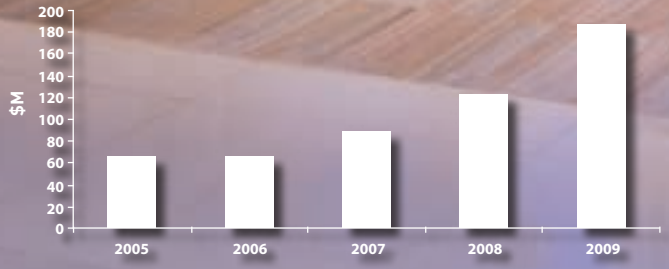


Alan Clarke
Managing Director

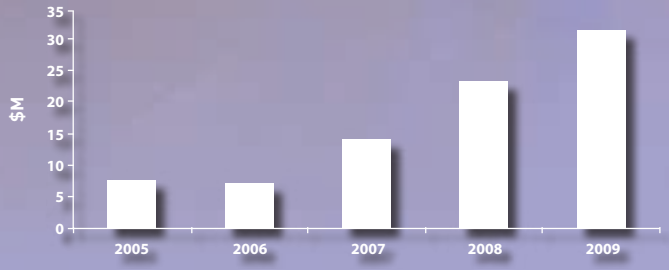
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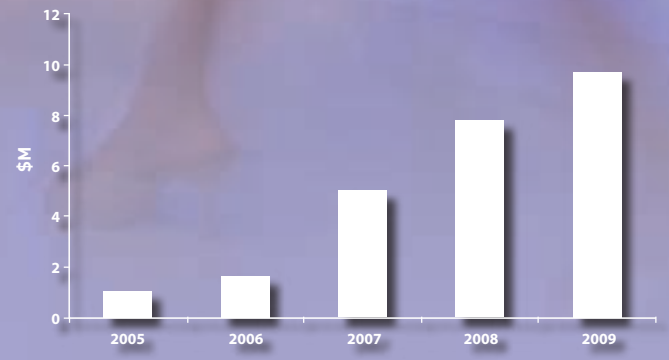
REVENUE



EBITDA



NPAT





TOUCH TO
BEGIN FREE
AUDIO
HEARING CHECK

TOUCH TO
BEGIN FREE
SPEECH
HEARING CHECK

Hearing check

Place headphones on ears

Touch screen

Ask assistant for

Audiology

Abano has three businesses in Audiology – New Zealand's leading audiology provider, Bay Audiology, Bay Audio in Australia and Bay Audiology in Asia. In 2009, these businesses provided approximately 33 percent of Abano's group revenue. In each of these businesses, a minority shareholding is held by clinical partners including the Bay founders.

The focus for 2009 was to maximise the performance of Bay Audiology, leveraging off the established network of clinics and the business's positioning as the leading audiology provider in New Zealand. There has been growth in competitor activity in the last twelve months and Bay has a marketing strategy in place to ensure continued high brand awareness, as evidenced by the recent successful marketing campaign in the second half of the financial year.

Bay Audio in Australia was launched in February 2007 and continues to grow, with the size of the network expanding through the development of Greenfield sites and the conversion of satellite clinics into full time clinics. Bay Audio's retail focused strategy of establishing 'walk in' audiology stores in retail and shopping mall environments provides a point of difference from many other audiology providers which offer their services through healthcare centres and alignments with medical practitioners.

The development and rollout of the revolutionary self assessment Touchscreen technology also provides Bay Audio with a unique offer and supports its retail focused strategy. The Touchscreen technology was designed with the help of audiologist advisors and lets customers self check their hearing health by following the instructions of a 'virtual audiologist'. This removes the pressure on customers to make an appointment and is ideally suited for retail and shopping mall environments.

The Australian audiology market is notably more fragmented than the New Zealand market, with the largest provider holding less than 10 percent share of the market and the majority of audiology providers consisting of small partnerships or sole providers. With a population more than five times bigger than that of New Zealand and a market size estimated at over AUD\$900 million, Australia offers considerable opportunity for Bay Audio.

Bay Audiology in Asia was established through a small investment in several clinics in Hong Kong and Singapore in late 2008, with a further two clinics acquired in Malaysia since the end of the financial year. These clinics operate as Sountex in Singapore and Malaysia and Dynasound in Hong Kong. As with Abano's other audiology businesses, Bay Audiology in Asia operates primarily through clinics in retail malls with high foot traffic.

The Asian market is characterised by high GDP growth with sophisticated consumer markets and behaviours and rapidly rising household incomes. Like New Zealand and Australia, one in nine people in Asia are affected by hearing difficulties. However, whereas 20 to 30 percent of these people are treated for hearing loss in New Zealand and Australia, in Asia the treatment rate is well below five percent. With limited existing providers and large prosperous populations, the Asian market provides a new opportunity for Abano with significant potential.

Although Greenfield development in New Zealand is expected to continue, the future high growth opportunities for Abano in audiology will be through the Bay Audio business in Australia and Bay Audiology in Asia. Both of these businesses are in their infancy in markets with large untapped potential.

This growth, for both Australia and Asia, will continue to be through the development of Greenfield sites in retail mall settings. This is partly because there are fewer desirable acquisitions or because the market is at its infancy. Greenfields also provide significantly lower up-front investment and capital costs compared to growth by acquisition. While Greenfield sites are generally cash negative during the early start up months, they have good return on investment over time as each store moves out of its start up phase.

As part of growing into Australia and Asia, the audiology businesses will continue to partner with local clinicians and management. This is to ensure that there is the appropriate management team in place in each region, who understand the local customs, cultures and traditions. Abano is also being assisted in its move into the Asian audiology market by a world-wide agreement with Siemen's Group, which provides mutual benefits to both parties and provides a lower risk entry into Asia for Abano.

BAY AUDIOLOGY NEW ZEALAND

2009 Highlights and Achievements

- Continued year on year business growth
- Acquired Dunedin Hearing with six clinics across Dunedin and Central Otago
- Strengthened management team with appointment of senior executive team
- Intranet site introduced as part of broader communication improvement programme to improve cross-site employee communication

Focus for 2010

- Introduction of new financial IT platform
- Rollout of new clinic IT platform
- Continuously improve all business processes and drive return on investment measurement into all results
- Ensure robust business processes and business improvement
- Year on year growth from existing sites, new site growth and transitioning visiting clinics into full time clinics
- Improve on all productivity measures across the business

BAY AUDIO AUSTRALIA

2009 Highlights and Achievements

- Continued development of strong business platform for future growth
- Acquisition of King Hearing with four permanent sites and opening of seven permanent Greenfield retail locations
- Strengthened senior management team with appointment of Human Resource Officer, Operations Manager and Marketing Manager
- Introduction of Touchscreen self assessment hearing technology
- Roll out of retail mall based clinics

Focus for 2010

- Development of more retail oriented marketing initiatives
- Continued and accelerated rollout of retail sites in large shopping centres
- Recruit more retail and sales oriented staff
- Engender a retail oriented focus across the network with ongoing training and advice
- Develop operational systems and structure to support a large retail chain

BAY AUDIOLOGY ASIA

Highlights and achievements for 2009

- Entered the Asian market with the acquisition of three Sountex clinics in Singapore and two Dynasound clinics in Hong Kong
- Acquired the two remaining Sountex franchisees in Singapore
- Opened two more stores in Hong Kong later in the financial year
- Appointed regional manager to manage Singapore and retained the owner of Dynasound to oversee Hong Kong

Focus for 2010

- Consolidate the new investments, including Malaysian acquisitions announced in July 2009, and integrate them into the Bay portfolio
- Focus on growth and securing long term dominant position in the Asian market
- Continue to identify opportunities in retail malls
- Open new, high profile retail focussed clinics in Singapore and Hong Kong

OPERATIONAL PERFORMANCE

\$ Million	2005	2006 ¹	2007 ²	2008	2009 ³
Core Revenue	n/a	13.6	30.9	43.6	62.2
Core EBITDA*	n/a	2.8	8.2	12.9	15.9

* After allocation of corporate overhead

1. Seventy percent of Bay Audiology acquired in October 2005

2. Entry into Australian market

3. Entry into the Asian market in December 2008



Dental

Abano has two businesses in the dental sector, Lumino The Dentists in New Zealand and Dental Partners in Australia. These businesses provided 36 percent of Abano's group revenue in 2009.

A "roll-up" strategy is in place for both of Abano's dental businesses, where continued growth by acquisition increases the scale of each group to cover the relatively fixed cost of the central overhead infrastructures.

The combined NZ and Australian dental market is worth over NZ\$6 billion, more than four times bigger than the audiology market, and there is significant potential to grow both dental brands. In both countries, the dental industry is characterised by a predominance of small dental partnerships, a mainly private revenue stream with limited public funding and little or no marketing or branding.

Dentists operating as sole traders or in small partnerships face several challenges including the rising cost of keeping up with modern technology; intensifying competition, particularly in the main metropolitan centres; more time required for administration rather than revenue-generating dental treatment; and a lack of collegial support. These factors are increasing the attractiveness to dentists of operating within a corporate-owned dental group.

Abano structures its acquisitions to retain the founder/dentists through continued service contracts, settlement retentions, and long-term profit shares or earn-outs of between four to six years. All dentists are remunerated on commission, providing a further incentive for them to increase revenues and grow the business.

A key focus for Abano is to provide a world class working environment with training, conferences and modern high tech equipment. This has proved very successful in recruiting and retaining dentists post the earnout periods and in ensuring Abano's dental businesses are the employer of choice in the industry.

In New Zealand, Lumino The Dentists has grown rapidly over the past five years, predominantly through the acquisition of high quality dental practices, and as at 31 May 2009 had a network of 42 practices and mobile buses across New Zealand. With each new acquisition, margin contributions continue to improve.

As well as expanding the network through continued acquisition, existing practices have been developed to accommodate more dentists and additional services are being offered, such as orthodontic treatments.

In 2010, the growth strategy will be continued and management will also focus on building the brand profile through targeted marketing and advertising campaigns.

There is an element of discretionary spend in the dental sector, particularly in relation to elective cosmetic dentistry. The current global downturn has put pressure on consumers' discretionary spend and as a result, the New Zealand dental sector has seen a softening in demand as consumers defer treatment until a later time. Increasing demand and growth for dental care is expected once economic conditions improve in New Zealand. The impact of the global downturn has not appeared to have been as evident in Australia.

Dental Partners was established in Australia in June 2008 and has grown from an initial network of nine practices to 18 practices in New South Wales, Queensland, Victoria and ACT as at 31 May 2009. Abano holds 70 percent of this business with the remainder held by experienced senior management executives and dentists. The focus for 2010 is to ensure Dental Partners maintains its strong operational platform, continuing to build the range of services on offer from existing practices and to grow the network through acquisition.

Abano now has a depth of experience in the dental market with a proven business model. Growth is through acquisition where the investment costs of each acquisition are offset by immediate returns from positive EBITDA cashflows.

The future focus is on growing each network and increasing margins and returns. Investment capital facilities are available for growth through ASB Bank in New Zealand and through a dedicated ring-fenced facility from CBA in Australia, solely for the growth of the Dental Partners business.

LUMINO DENTAL

2009 Highlights and Achievements

- Acquired 10 practices throughout New Zealand, including New Zealand's largest single site practice ProudMouth in the Auckland CBD
- Acquired practices for the first time in the Bay of Plenty, Hawkes Bay and Canterbury
- Added a third mobile bus to the adolescent services provided in the Auckland region

Focus for 2010

- Continue to acquire further practices
- Continue to grow overall EBITDA margin and ROIC
- Continue to grow the "pipeline" of potential dentists and hygienists
- Continue to grow the profile of the Lumino brand and increase the flow of new patients
- Continue to grow the clinical expertise within the group and continue to improve patient experience

DENTAL PARTNERS

2009 Highlights and Achievements

- Entered Australian market in June 2008 with initial acquisitions of nine practices
- Acquired a further nine practices during the 2009 financial year
- Held inaugural Practice Managers conference in February 2009

Focus for 2010

- Dentist Conference planned for August 2009
- Continue to grow overall EBITDA margin and ROIC
- Continue to strengthen the business platform with substantial growth planned for 2011 financial year and beyond
- Identify and evaluate opportunities for Greenfield site development as well as acquisitions

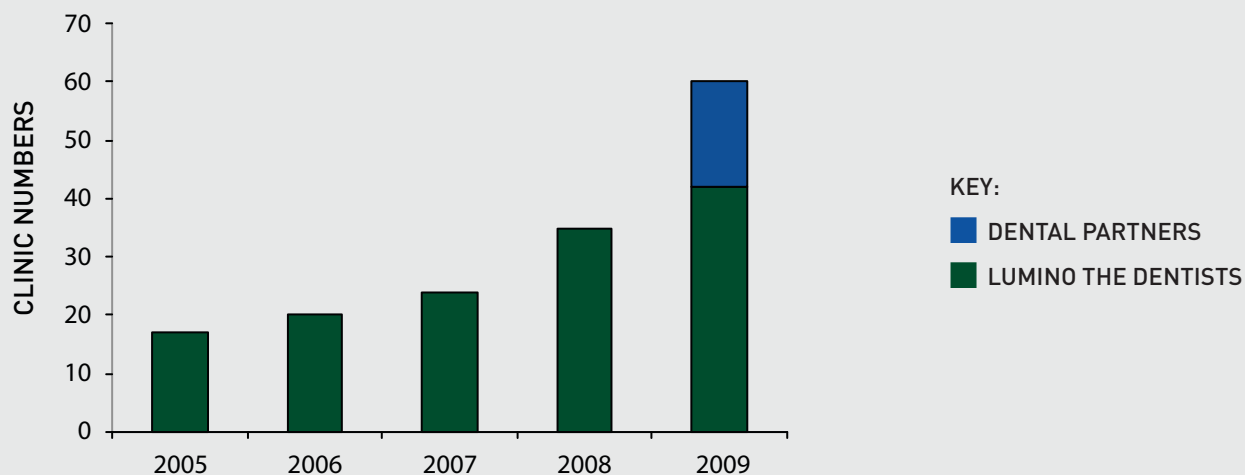
OPERATIONAL PERFORMANCE

\$ Million	2005	2006	2007	2008	2009 ¹
Core Revenue	9.4	14.7	19.7	27.2	68.1
Core EBITDA*	0.2	0.3	1.0	2.2	7.4

* After allocation of corporate overhead

1. Entry into Australian market June 2008

NETWORK GROWTH





Diagnostics

Abano's Diagnostics sector includes Aotea Pathology, a medical diagnostics laboratory in Wellington, and two radiology businesses in Auckland. The businesses provided 19 percent of Abano's group revenue.

Abano has a 55 percent shareholding in Aotea Pathology, a joint venture with Sonic Healthcare. The business is into its third year of a five year \$102 million fixed-price contract for community pathology in the wider Wellington region with a stable management team, a newly merged laboratory and effective systems in place.

In Radiology, Abano owns 73 percent of Ascot Radiology which operates from three sites in Auckland, and 80 percent of Insight Radiology, a specialist obstetric radiology clinic with two clinics in Auckland, which was acquired in November 2008.

The last 12 months for Ascot Radiology have seen a focus on establishing new imaging facilities and Abano has invested in the latest generation equipment and technologies across the radiology businesses to ensure the best possible diagnostic care.

In 2009, a new 3 Tesla MRI was installed in Ascot Radiology's existing clinic, enhancing diagnostic ability and patient care. This compliments the 3 Tesla MRI installed in the new Ascot Central clinic which was opened in June 2008. In addition to a full range of diagnostic services, the Ascot Central clinic also offers state of the art breast imaging in association with Breast Associates, a group of pre-eminent breast surgeons. The next twelve months will be a time of consolidation for Ascot Radiology as the business maximises efficiencies across the two expanded clinics. Greenlane Imaging, also owned by Ascot Radiology, continues to provide selected services from its clinical location in Greenlane Hospital.

In November 2008, Abano acquired 80 percent of Insight Radiology, with the clinical founder, Dr Richard Davis, holding the remaining 20 percent. Over the next year, Abano plans to sell down its holding to 70 percent, through the introduction of new Specialist and Radiologist partners into the Insight business. Insight Radiology is a highly regarded specialist 4D ultrasound obstetric practice with two clinics in Auckland.

While Aotea Pathology has a hold strategy in place due to its reliance on a five-year Government contract, the radiology market offers considerable opportunity for expansion through acquisition and extension of services.

AOTEA PATHOLOGY

Highlights and Achievements for 2009

- Business volumes under fixed prices contract contained at a reasonable level
- Outstanding result from the industry accreditation body (IANZ)
- Contained costs despite weakening NZ dollar against other currencies which have forced consumable price increases
- Implementation of screening for HIV with antenatal testing
- Successful internal processes implemented in leadership training and performance development
- Development of IT based error tracking system and implementation of process for immediate audit of data entry to minimise clinically significant errors

Focus for 2010

- Successfully introduce new testing opportunities for Human papilloma virus (HPV) and inflammatory bowel disease
- Evaluation of automated cervical cytology screening
- Investigation of electronic test requesting to reduce manual data entry and associated error
- Continue to develop test request guidelines to manage test demand
- Enhance patient and referrer communications

ASCOT RADIOLOGY

Highlights and Achievements for 2009

- Major upgrade of imaging facilities
- Opened specialised breast imaging centre at Ascot Central in June 2008 with Mayor John Banks officiating
- Recruited new staff and Shareholder Radiologists to operate the specialist breast imaging service at Ascot Central
- Exchanged 1.5 Tesla MRI Scanner at Ascot Radiology's existing clinic for a new 3 Tesla MRI
- Redevelopment of IT system

Focus for 2010

- Increase Radiologist staff servicing the breast imaging centre
- Introduce Associate Radiologists into shareholding with Ascot Radiology
- Further development of IT systems including conversion to a paperless department, and development of an Information Intranet
- Replacement of two ultrasound machines with latest generation equipment
- Open new clinical facility adjacent to the Ascot Central Radiology clinic

INSIGHT RADIOLOGY

Highlights and Achievements for 2009

- Abano acquired 80 percent of Insight Radiology in November 2008
- Invested in a new 4D Ultrasound scanner

Focus for 2010

- Continue to enhance and improve speciality obstetric ultrasound offer
- Continue to promote Pregnancy Ultrasound Package
- Introduction of inhouse first trimester blood screening

OPERATIONAL PERFORMANCE

\$ Million	2005	2006	2007 ¹	2008 ²	2009
Core Revenue	18.5	19.2	22.5	33.7	35.6
Core EBITDA*	2.0	2.8	3.8	6.5	7.1

* After allocation of corporate overhead

1. Sale of Nelson Diagnostics and establish Aotea pathology
2. Ascot Radiology and Greenlane Imaging changed from associates to subsidiaries



Rehabilitation

Abano owns business in Orthotics and in Community and Residential Brain Injury Rehabilitation, both of which are Hold and Maintain business streams. These businesses provided 11 percent of Abano's revenue in 2009.

Orthotic Centre NZ is the country's foremost supplier of orthotic services and specialist products. Clients range from children to baby boomers, athletes to everyday people.

2009 was a year of consolidation for the business with the focus on renewing contracts with the various Auckland DHBs. This focus will continue into 2010 as the business looks to secure future revenue streams. In addition, private revenue opportunities will continue to be identified and progressed.

Abano Rehabilitation consists of three aligned businesses providing assessment services, residential rehabilitation and supported accommodation, particularly for those with brain injuries, and clinical intervention to community based clients. The sector operates in a fixed price environment and revenue is 99 percent funded by ACC and MOH. During 2009, attention was centred on maintaining costs, improving occupancy levels and generating new revenue through the offer of new or expanded services.

Over the last few months, ACC has had a renewed focus on ensuring it receives value for money from its service providers. Changes are being made to the process for handling claims, with an emphasis on early intervention or rehabilitation, and early return to readiness to work. Many ACC service contracts are changing, and these changes require providers to demonstrate robust quality systems and highly professional services. Abano Rehabilitation has been strengthening its systems and tightening up its services for some time, and is well placed to take advantage of these changes.

Abano's Rehabilitation businesses are well run and provide solid, consistent revenue streams. However, due to the fixed price nature and public funding of this sector, significant growth opportunities are limited.

ABANO REHABILITATION

2009 Highlights and Achievements

- New contract in Hamilton providing care for post-acute clients with high medical needs
- Increase in number of clients making significant rehabilitation gains and those able to return to community living
- Opened two new six-bed houses on one site in Henderson, Auckland and admitted first clients in May 2009
- Alliance formed with In-Work NZ, a provider of job search and support services to Councils and Work and Income NZ, in Auckland and Hamilton

Focus for 2010

- Continue to strengthen systems and manage costs
- Improve staff selection procedures and orientation programmes in order to reduce staff turnover within the first 12 months of employment
- Commission new premises in West Auckland and Hamilton
- Improve bed occupancy rate in residential facilities
- Develop new revenue streams for community services

ORTHOTICS CENTRE

2009 Highlights and Achievements

- Appointment of new CEO and the restructure of the management team
- Received an extension up to 2011 for the Auckland Personal Health contract with the three Auckland DHBs
- Purchased and installed an eco-friendly “state of the art” oven, based on infra-red technology

Focus for 2010

- Relocate Wellington operations into purpose designed facilities in August 2009
- Upgrade the patient management system
- Re-focus on the private sector of orthotics

OPERATIONAL PERFORMANCE

\$ Million	2005	2006	2007	2008	2009
Core Revenue	12.3	14.6	16.4	19.3	21.3
Core EBITDA*	0.8	1.1	1.7	2.9	2.9

* After allocation of corporate overhead

Our People

The healthcare and medical services industry is built on the dedicated clinicians, scientists, management teams and support staff who provide professional, quality care and treatment to thousands of people every day. Our staff of over 1,300 people, are and always will be the backbone of our company, and each and every person plays an important part in how our businesses are perceived and the reputations they uphold.

Our partnership philosophy remains an important element in the success of our business and an essential ingredient in our growth strategy. At Abano we co-invest in partnerships with the high quality clinical founders of successful businesses and then continue to work with them to generate additional shareholder value. We ensure the retention of these individuals through individual employment contracts, which include earn out periods, and also have a policy of actively introducing new generations of clinical leaders/partners through equity partnerships.

The changing economic environment has seen a reduction in staff turnover across the healthcare industry; however, retention and recruitment remain a key focus for each Abano business. We have a number of strategies and practices in place to ensure each Abano business is seen as a rewarding and attractive employment opportunity.

The Abano group is managed by a small executive management team consisting of Managing Director, Alan Clarke, Chief Financial Officer, Richard Keys and Group Financial Controller, Brendan O'Sullivan.





Governance

The board of Abano currently consists of five independent directors and two executive directors, including the managing director.

The directors of Abano Healthcare Group are elected based on the value they bring to the board. Each of the directors is an experienced business person who provides value by making quality contributions to corporate governance matters, conceptual thinking and strategic planning.

The directors play an important part in providing guidance to management to enable them to increase the profitable growth of Abano in the years ahead.

With Abano's continuing expansion into international markets, particularly Australia and Asia, the board identified the need for new directors with specific experience and knowledge of these markets.

During the 2009 year, Mr Danny Chan and Mr Peter Hutson were welcomed to the board, both of whom have valuable knowledge and experience of the markets and sectors in which Abano operates. Mr Graeme Edmond resigned from the board in December 2008 to focus on other business interests.

More details of Abano's principle corporate governance policies and practices for 2009 are outlined on our website.

BACK ROW FROM LEFT TO RIGHT

Susan Paterson (independent director), Trevor Janes (independent director), Alan Clarke (managing director), Phil Newland (independent director)

FRONT ROW FROM LEFT TO RIGHT

Danny Chan (independent director), Alison Paterson (chair), Peter Hutson (executive director)

CORPORATE GOVERNANCE FRAMEWORK AT ABANO

We consider the nine governance principles identified in the Corporate Governance in New Zealand Principles and Guidelines report, drafted and released by the New Zealand Securities Commission in 2004, provide an appropriate guideline for our policies and practices and have applied these to our comprehensive corporate governance code.

We are also confident that our governance practices comply with the NZX Corporate Governance Best Practice Code in its entirety, for the year ended 31 May 2009.

The company will continue to monitor developments in best practice in the governance area and update its policies accordingly, to ensure it maintains the most appropriate standards for governance for Abano.

THE BOARD OF DIRECTORS

The board of directors is elected by shareholders to govern Abano Healthcare Group in the shareholders' interests, and is the final body of responsibility for all decision making within the Company.

The board's key responsibilities are to formulate the strategic direction of the Group, to oversee the financial and operational controls of the business and to ensure appropriate risk management strategies and policies.

Our governance structure and practices encourage the highest standards of ethical conduct, and provide accountability and control systems commensurate with the risks involved.

The board is also responsible for the fostering of corporate culture, the appointment and remuneration of senior executives, the adoption of corporate plans and policies, the approval of transactions of substance and the review of business risks.

Board procedures and conduct are governed by the Company's Constitution and by the Directors' Manual of Board Policies, Procedures and Governance (Board Policy Manual). This manual serves as a reference for directors in focusing on, and evaluating, the board's framework, procedures and matters of governance.

Ethical conduct

The board and management of Abano Healthcare Group Limited are committed to ensuring best practice in corporate governance is adhered to, and that the highest ethical standards are maintained by directors, staff and suppliers in all activities conducted by the Group or in the interests of the Group.

The board has adopted a policy on business ethics which is designed to formalise the Group's commitment to the highest standards of ethical conduct and to provide employees and representatives with clear guidance on those standards.

The policy addresses conflicts of interest, receipt of gifts and entertainment, fair business practices, fair employment practices and contractual obligations. A separate 'whistle

blowing' policy provides an avenue for employees to gain direct access to the managing director and/or chairman of the Audit Committee if they believe there are issues that need to be raised.

Selection and role of the chairman

The chairman is selected by the board from non-executive directors. The board supports the separation of the role of chairman and managing director. The chairman's role is to manage the board effectively, to provide leadership to the board, and to facilitate the board's interaction with the managing director.

Board membership

The board currently consists of five independent directors, one executive director and one executive managing director, who are elected based on the value they bring to the board and against set criteria detailed in the nominations committee charter.

Each Abano director is a good seasoned businessperson, who has gained broad experience in a larger organisation or a professional practice. They provide value by making quality contributions to corporate governance matters, conceptual thinking and strategic planning, policies and providing guidance to enable management to increase profitable growth in the years ahead.

They have the necessary time available to devote to the position, broaden the board's expertise, have a personality that is compatible with the other directors and have a strong market perception.

The board consists of:

- Alison Paterson Independent chairman
- Trevor Janes Independent deputy chairman
- Phil Newland Independent director
- Susan Paterson Independent director
- Danny Chan Independent director
- Peter Hutson Executive director
- Alan Clarke Executive Managing director

The number of elected directors and the procedures for their retirement and re-election at annual meetings of shareholders are set out in the Constitution of the Company.

Director independence

In order for a Director to be considered independent, the board has determined that he or she must not be an executive of the Company, and must have no disqualifying relationship. The Company follows the independence guidelines of the NZX Listing Rules.

The board has determined that all directors are independent, except for the managing director, Alan Clarke and executive director, Peter Hutson. Mr Hutson is a founder, minority shareholder and employee of Bay Audiology Limited. He also has interests in Healthcare Industry Limited, which has a 19.7% shareholding in Abano.

Nomination and appointment of new directors

The procedures for the nomination and appointment of directors are governed by Abano's constitution.

The nomination committee is responsible for identifying and recommending candidates to the board, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Directors.

Directors may also be nominated by shareholders under NZX Listing Rule 3.3.5. Shareholders are provided with ten business days' notice of the closing date of nominations, which is not greater than two months prior to the Annual Meeting. Abano notifies shareholders of this time period through a market announcement to the NZX.

A director may be appointed by ordinary resolution and all directors are subject to removal by ordinary resolution.

The board may at any time appoint additional directors. A director appointed by the board shall hold office only until the next annual meeting of the company but shall be eligible for election at that meeting.

One third of the directors shall retire from office at the annual meeting each year. The directors to retire shall be those who have been longest in office since they were last elected or deemed elected.

Director education

Abano encourages all directors to undertake appropriate training and education so that they may best perform their duties. In addition, all directors are regularly updated on relevant industry and company issues, including briefings from key executives and ongoing presentations to the board by all business units.

Board access to information and advice

Directors receive materials for board meetings four days in advance, except in the case of special meetings, where the time period may be shorter due to urgency of the matter to be considered.

All directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at board meetings, or other areas as they consider appropriate.

The board, board committees and directors, subject to the approval of the chairman, have the right to seek independent professional advice at Abano's expense, to enable them to carry out their responsibilities.

Meetings held and attended

The table below sets out the board and sub-committee meetings attended by directors during the course of the financial year.

	MONTHLY BOARD MEETINGS	AUDIT	REMUNERATION
Alison Paterson	21	2	1
Trevor Janes	21	2	0
Phil Newland	21	0	1
Susan Paterson	21	0	1
Graeme Edmond*	12	0	0
Danny Chan**	7	1	0
Peter Hutson***	7	0	0
Alan Clarke	20	2	0

*Graeme Edmond resigned 31 December 2008

**Danny Chan appointed 19 December 2008

***Peter Hutson appointed 25 November 2008

Disclosure of interests by directors

The Board Policy Manual sets out procedures to be followed where directors have an interest in a transaction or proposed transaction or are faced with a conflict of interest. Each business in the Group is required to maintain an interests register in which particulars of certain transactions and matters involving directors must be recorded. The interests register for Abano Healthcare and its subsidiaries is available for inspection at its registered office.

Details of all matters entered into the interests register by individual directors are in the Annual Report. The declaration of an interest by a director in a particular entity as a shareholder or director serves notice that the director may benefit from any transaction between the Company or the Group and the identified entities.

Directors' share dealings

The Board Policy Manual sets out the procedures to be followed by directors when trading in Abano Healthcare shares. The policy adheres to the share trading protocol of the NZX.

Details of directors share dealings are outlined in the Annual Report.

Directors' use of information

No member of the board of Abano Healthcare, or its subsidiaries, issued a notice to use information received by them in their capacity as directors, which would not otherwise have been available to them.

Indemnification and insurance of officers and directors

The Group has arranged a policy of directors' and officers' liability insurance with QBE Insurance (International) Limited which ensures that generally directors and officers will incur no monetary loss as a result of actions undertaken by them as officers or directors.

Directors self evaluation

The board is responsible to shareholders for the strategic overview and direction of the group. The board has a policy of annual evaluation of individual and board performance. The evaluation is undertaken by each member of the board. Any issues identified are discussed and action taken to improve on those areas.

BOARD COMMITTEES

To assist directors in carrying out their duties, the board has two standing committees, comprising only non-executive directors - the audit committee and the remuneration committee - and one standing committee comprising all directors - the nominations committee - to focus on specific areas of responsibility.

The committees meet as required and have terms of reference, which are approved and reviewed by the board. Minutes of each committee meeting are forwarded to all members of the board and all board members have a standing invitation to attend any committee meeting. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

Audit committee

The role of the audit committee is to assist the board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding accountancy practices, policies and controls relative to the Group's financial position, and to review and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the board with additional assurance about the quality and reliability of the financial information used by the board, and of the financial information issued publicly by the Group.

Although the board as a whole is responsible for the accuracy and relevance of the Group's financial statements, the audit committee provides an additional, and more specialised, oversight of the financial reporting process. The committee also reviews operation of internal controls and the quality and cost of the audit undertaken by the Group's external auditors.

The audit committee comprises three non-executive directors, of whom at least two must be independent, and at least one must be considered a financial expert. The chairman of the audit committee shall not be the chairman of the Company.

The audit committee members are T.D. Janes (chair), A.M. Paterson and D.Chan and it met twice in the past financial year. Managing director, Alan Clarke, and chief financial officer, Richard Keys, have standing invitations to join the audit committee meetings. In addition, the external auditor attends meetings of the audit committee.

Remuneration committee

The primary role of the remuneration committee is to review and recommend the remuneration, benefits and terms of employment of the Group's senior executives, including the managing director. This role also includes responsibility for incentive performance packages and fringe benefit policies. In carrying out this role, the sub-committee acts independently of senior management of the Company and obtains independent advice on the appropriateness of remuneration packages.

The remuneration committee comprises S.M. Paterson (chair), A.M Paterson and P.S. Newland. It met once during the past financial year.

Nomination committee

The role of the nomination committee is to identify and recommend candidates for directors, to the board, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other directors. The nomination committee comprises all of the directors.

REMUNERATION AT ABANO

Remuneration of directors

Remuneration of directors and executives is the key responsibility of the remuneration committee.

Directors' fees are within the \$357,500 approved at the 2007 annual meeting. All non-executive directors receive \$39,500 p.a., each committee chair receives a further \$5,000 p.a., with

the deputy chairman receiving an additional \$10,000 p.a. The chairman receives a total of \$79,500 p.a.

Details of directors' remuneration are detailed in the Annual Report.

Board members are encouraged to hold shares in Abano, however, all fees are paid in cash and it is up to the individual director's discretion to purchase shares in the Group if he/she wishes and in line with the Abano share trading policy, in compliance with the Trading Securities legislation.

Under the NZ Listing Rule 3.5.2, the board may only make a payment to a director upon cessation or retirement from office with shareholder approval. Abano's current board policy is that no sum is paid to a director upon retirement or cessation of office.

Remuneration of executives

Executive remuneration comprises a fixed base salary and a variable short term bonus paid annually. Bonuses are paid against targets agreed with executives at the commencement of the year, and are based on profitability, growth and personal objectives. Once the level of bonus achieved has been determined, the executive is given the choice of taking the bonus in the form of cash or ordinary shares.

In the case of shares, the price at which shares are issued is the average closing share price of ordinary shares in Abano Healthcare on the NZX over the five business days immediately following the announcement of the company's annual result.

In addition, there is a long-term incentive plan for senior members of the Group's management team, which was approved at the annual meeting in November 2008. The long term incentive will be granted based on Abano achieving certain performance criteria over the three years. Details of this scheme can be found on the website at www.abanohealthcare.co.nz.

Details of executives' remuneration and entitlements are detailed under Remuneration of Employees information in the Annual Report.

MANAGING RISK

The board has overall responsibility for the company's system of risk management and internal control and has procedures in place to provide effective control within the management and reporting structure.

Financial statements are prepared monthly and are reviewed by the board progressively throughout the year to monitor management's performance against budget goals and objectives, and the board requires managers to identify and respond to risk exposures. In addition, a quarterly formal risk assessment review is presented to the board by the managing director, which identifies areas of exposure and strategies to mitigate these.

A structured framework is in place for capital expenditure, including appropriate authorisation and approval levels which place a high emphasis on the commercial logic for the investment.

The board has set limits to management's ability to incur expenditure, enter contracts and acquire or dispose of assets.

Risk profiles which identify, assess, monitor and report the company's key business risks are reviewed by the board. These risk profiles also identify the key risk mitigation strategies which are in place.

The board reviews an overall view of the risk profile of the Group and is responsible for monitoring corporate risk assessment processes.

DISCLOSURE

Abano's continuous disclosure policy governs the release to market of all material information that may affect the value of the company. The board requires that senior management, particularly the managing director and chief financial officer, discuss if information is material and arrange for its release to the market. The continuous disclosure officer is the chief financial officer.

In addition, the managing director and chief financial officer are responsible for the generation of financial reports, for review by the audit committee and for audit by external auditors.

Shareholder reporting

In each year, the Group provides shareholders with an annual and interim (six-month) report. This year, for the first time, Abano has produced and mailed out a summary Shareholder Review for the 2009 financial year to all shareholders. This is a companion document to the more accounts-focused Annual Report which is available on request and can be viewed on the company website.

The Group also provides shareholders with a bi-annual newsletter, which provides an overview of the Group's progress, an update of each sector's performance and news from the healthcare and medical services market. Copies of all major news releases, announcements and company reports are available on the company's website at www.abanohealthcare.co.nz.

Shareholders may subscribe to receive copies of company documents and news announcements electronically by completing the online form at www.abanohealthcare.co.nz/shareholderservices.

Shareholders may raise matters for discussion at annual meetings and have the ultimate control in corporate governance by voting directors on or off the board.

The company maintains written policies which provide guidance and accountability for compliance with continuous disclosure, and other listing requirements of the NZX.

Stakeholders' interests

The Group has a wide range of stakeholders and maintains open channels of communication for all audiences. Bi-annual newsletters, half year reports and annual reports are distributed to a wide range of stakeholders by the Group and management encourage phone calls and communications from interested parties.

In addition, regular newsletters are produced and distributed by individual businesses within the Group and provide updates of business activities and events.

AUDITOR INDEPENDENCE

Audit work is separated from non-audit services. This is beyond recommendations proposed by IFAC (International Federation of Accountants) regulations, the 2002 ICANZ (Institute of Chartered Accountants of New Zealand) publication entitled "Corporate Transparency" and the NZX, to ensure that appropriate independence is maintained.

The audit committee reviews the quality and cost of the audit undertaken by the Group's external auditors, and provides a formal channel of communication between the board, senior management and external auditors. The committee also assesses the auditor's independence on an annual basis.

At the annual meeting in November 2008, shareholders approved the re-appointment of PricewaterhouseCoopers as external auditors for the Company.

SUBSEQUENT EVENTS

There is no material change to the accounts as presented.

Operational Performance

All sectors contributed positive operating profits for the financial year to 31 May 2009, leading to a record Net Profit After Tax of \$9.7 million, an increase of 24 percent on the previous year.

The record profit was driven by continued demand across all four healthcare sectors, as well as from growing contributions from several new acquisitions, leading to a 51 percent year on year increase in revenues to \$187.2 million.

A record Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$31.5 million was also achieved, up 35 percent year on year. This is of particular note as the operating profit included all the initial start up costs of several new significant initiatives undertaken during the financial year in Audiology, Dental and Radiology.

Return on Invested Capital at EBITDA was maintained at a similar level to last year, at 17.3 percent, despite significant investment in acquisitions, Greenfield developments and other initiatives where the full benefits will not be realised until the 2010 financial year and beyond. This is from an initial ROIC on EBITDA of less than 5 percent in 2000 when we were purely an aged care provider.

Earnings per share have grown from 3.7 cents per share in 2005 to 42.1 cents per share in 2009.

The company continues to effectively monitor capital requirements. Capital expenditure in 2009 was \$77.5 million, made up of acquisitions of \$63.3 million, Greenfield start

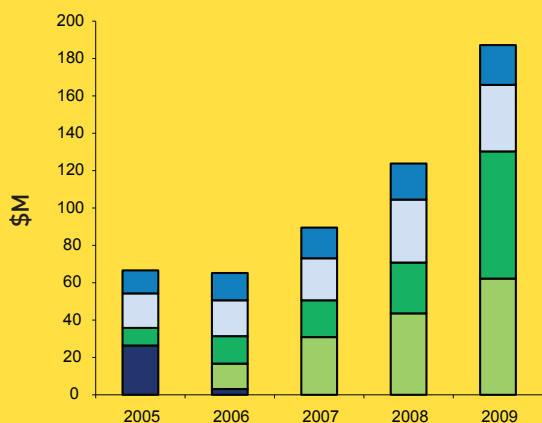
ups or new revenue generating capital expenditure totalling \$3.3 million and \$10.9 million of normal operational and replacement capital.

Abano banks with ASB Bank in New Zealand and CBA in Australia and has confirmed debt facilities with both these banks equivalent to approximately NZ\$130 million. In New Zealand, Abano has a NZ\$100 million confirmed facility with ASB Bank, with maturity terms between 2011 and 2013, with rollover provisions. This is in addition to a separate A\$25 million facility with CBA in Australia, which is due to mature in mid 2013, and is ring-fenced as a dedicated facility to fund the acquisition of dental practices for our Australian dental business, Dental Partners.

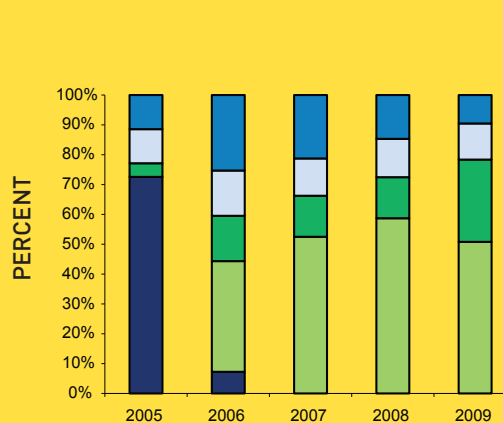
Interest rate risk is mitigated through the use of interest rate SWAP agreements while a hedging policy is in place to mitigate risk from currency fluctuations where possible. Abano has a very small exposure to fluctuating exchange rates as most purchases are made in New Zealand dollars. However, as we expand into overseas markets, a small increase in this exposure is likely.

Our debt levels increased in 2009 as we continued to grow our businesses through acquisition and Greenfield development. Net bank debt grew to \$82.2 million as at 31 May 2009, generating a debt to debt+equity ratio of 57.6 percent which the Board considers acceptable for a growth company such as Abano.

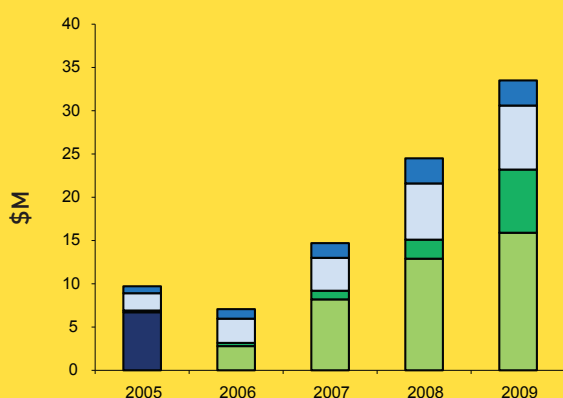
REVENUE PROGRESS BY SECTOR



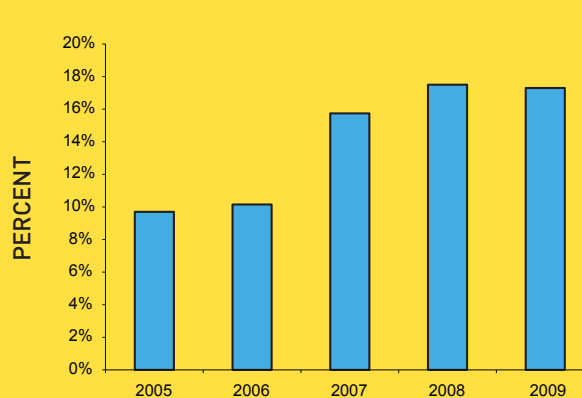
CAPITAL EMPLOYED BY SECTOR



EBITDA PROGRESS BY SECTOR



GROUP EBITDA RETURN ON INVESTED CAPITAL



■ AGED CARE ■ REHABILITATION ■ DIAGNOSTICS ■ DENTAL ■ AUDIOLOGY ■ GROUP

Financials

Operating Financial Performance

	2005 ^{1,2} \$M	2006 ³ \$M	2007 \$M	2008 \$M	2009 \$M
Revenue	66.7	65.2	89.5	123.9	187.2
EBITDA	7.5	6.7	13.9	23.3	31.5
Amortisation	0.0	0.0	0.0	(0.5)	(0.5)
Depreciation	(3.3)	(2.3)	(3.2)	(3.4)	(5.3)
EBIT	4.2	4.4	10.7	19.4	25.8
Net Interest on borrowings	(2.9)	(0.5)	(0.9)	(2.4)	(5.9)
Fair value gain(loss) on swaps	0.0	0.3	0.1	(0.2)	(0.2)
Put Option "Interest"	0.0	(0.9)	(1.2)	(2.3)	(2.0)
NPBT	1.3	3.3	8.7	14.5	17.6
Taxation	(0.3)	(1.7)	(3.4)	(5.7)	(6.0)
Minority Interest	0.0	0.0	(0.3)	(1.0)	(1.9)
NPAT	1.0	1.6	5.0	7.8	9.7
No. of shares (000s)	27,105	23,010	23,010	23,030	23,233
Operational EBITDA/Share	27.7 cents	29.1 cents	60.6 cents	101.2 cents	135.8 cents
Earnings Per Share	3.7 cents	7.0 cents	21.9 cents	34.0 cents	42.1 cents

Financial Position

	2005 \$M	2006 \$M	2007 \$M	2008 \$M	2009 \$M
Total Assets	88.3	96.6	123.9	163.7	230.4
Net Bank Debt	33.1	9.9	12.3	33.9	82.2
Net Debt ⁴	35.5	37.8	48.3	77.4	122.0
Total Equity	42.0	46.9	52.4	55.3	62.5

¹ 2004/05 figures reflect the 1:10 share consolidation on 14 December 2005.

² NZ IFRS was adopted for the year ended 31 May 2006. Figures for 2004/05 year have been restated in line with NZ IFRS guidelines.

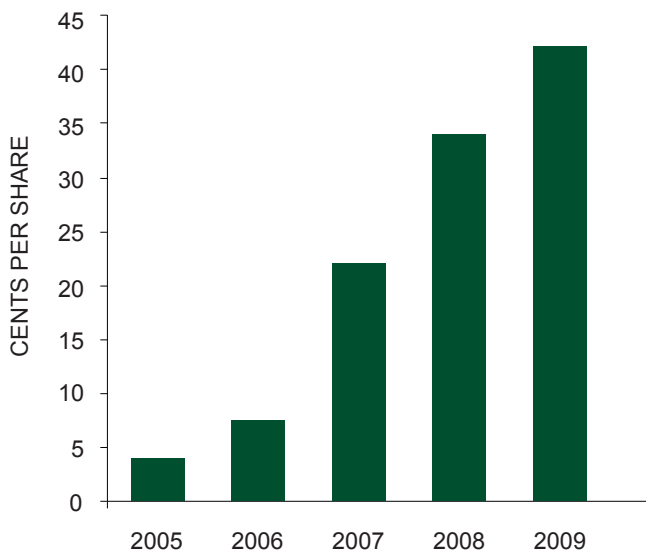
³ Excludes capital gain from the sale and divestment of ElderCare New Zealand Limited in June 2006.

⁴ Net Debt equals Net Bank Debt plus Deferred Acquisition Consideration.

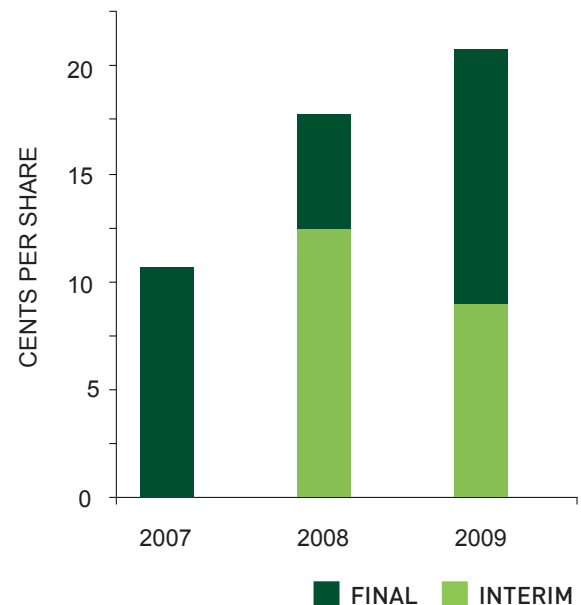
Key Financial Ratios

	2005 \$M	2006 \$M	2007 \$M	2008 \$M	2009 \$M
Net Bank Debt/Total Assets	37.5%	10.2%	9.9%	20.7%	35.7%
Net Debt/Total Assets	40.2%	39.1%	38.9%	47.3%	53.0%
Equity/Total Assets	47.6%	48.6%	42.3%	33.8%	27.1%
Bank Interest cover at Core EBITDA	2.8x	4.8x	10.8x	8.3x	5.1x
EV/Core EBITDA	9.9x	4.8x	6.2x	6.2x	6.3x

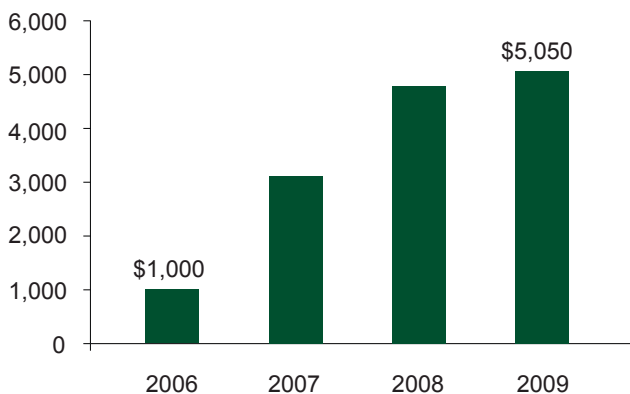
Earnings Per Share



Dividends Per Share



Investment Return



A \$1,000 investment made in Abano shares at the end of May 2006 was worth \$5,050 at the end of May 2009 and these shares have received \$380 in imputed dividends over that time.

Supporting our Communities

- Lumino The Dentists assisted the Ministry of Health to undertake its national Oral Health Survey
- Abano Rehabilitation had two senior clinicians working with Career Force as part of a team developing an NZQA Level 4 Certificate in Brain Injury Rehabilitation
- Ascot Radiology and Abano both sponsored the Pink Dragons breast cancer dragon boat team
- Bay Audiology New Zealand supported the Rarotongan Health Department Hearing Aid Charity, in partnership with Lions New Zealand
- Provided free Hearing Screening Units to GPs in the community
- Bay Audiology New Zealand sponsorship of ProCare GP of the Year
- Continued association between Bay Audiology New Zealand and Vanderbilt University Exchange Programme
- Bay Audio donate disused hearing aids to the Australian Pacific Aid programme
- Dental Partners supported the Crossing for Cancer event in which participants crossed Bass Strait (approximately 350km) by canoe raising awareness and funds for the Australian Cancer Research Foundation
- Abano Healthcare Group also provided donations to Ronald McDonald House and Kidney Kids
- Charitable fund managed by Aotea Pathology staff with donations to community organisations including Mary Potter Hospice, Te Omanga Hospice, Ronald McDonald House, Halberg Trust and Wellington Free Ambulance
- Aotea Pathology staff involved in Cancer Society Relay For Life in Wellington
- Abano sponsorship of ProCare Awards

Abano Healthcare Financial Statements



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 2009 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 29 to 65, for the year ended 31 May 2009.

The financial statements presented on the following pages were authorised for issue on 28 July 2009.

For and on behalf of the Board



Alison Paterson
CHAIR



Alan Clarke
MANAGING DIRECTOR

AUDITORS' REPORT



PricewaterhouseCoopers

188 Quay Street
Private Bag 92162
Auckland New Zealand
DX CP24073
Telephone +64 9 355 8000
Facsimile +64 9 355 8001

TO THE SHAREHOLDERS OF ABANO HEALTHCARE GROUP LIMITED

We have audited the financial statements on pages 29 to 65. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 May 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 33 to 37.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 May 2009 and their financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements.

It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and through the provision of accounting technical services and other assurance services.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 29 to 65:
 - (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 Group as at 31 May 2009 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 28 July 2009 and our unqualified opinion is expressed as at that date.

Chartered Accountants

Auckland

INCOME STATEMENT

For the year ended 31 May 2009

	Note	GROUP		COMPANY	
		MAY 2009 \$000	MAY 2008 \$000	MAY 2009 \$000	MAY 2008 \$000
Revenue	3	187,210	123,888	228	213
Changes in inventories		(26,462)	(17,097)	-	-
Patient consumables		(10,289)	(9,973)	-	-
Employee benefits		(86,988)	(53,173)	(2,201)	(1,799)
Depreciation and amortisation expenses		(5,787)	(3,925)	(146)	(131)
Occupancy costs		(11,700)	(7,099)	(128)	(133)
Other operating expenses	4	(20,605)	(13,690)	(1,139)	(1,159)
Other operating income	5	143	270	7,716	8,892
Operating profit		25,522	19,201	4,330	5,883
Net financing costs	6	(8,152)	(4,861)	(4,739)	(3,604)
Share of profit of associates	11	231	173	-	-
Profit before income tax		17,601	14,513	(409)	2,279
Income tax expense	7	(5,987)	(5,678)	1,620	1,299
Profit for the year		11,614	8,835	1,211	3,578
ATTRIBUTABLE TO:					
Equity holders of the company		11,614	8,835	1,211	3,578
Minority interest		(1,879)	(1,012)	-	-
		9,735	7,823	1,211	3,578
Earnings per share					
Basic (cents)	17	42.09	33.97		
Diluted (cents)	17	42.09	33.97		

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2009

GROUP	Note	SHARE CAPITAL \$000	TREASURY SHARES \$000	FOREIGN CURRENCY TRANSLATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at 1 June 2007		54,547	(482)	-	-	(2,105)	51,960
Profit for the year		-	-	-	-	8,835	8,835
Profit for the year attributable to minority interests		-	-	-	-	(1,012)	(1,012)
External dividends paid		-	-	-	-	(5,888)	(5,888)
Exec convertible notes exercised		60	-	-	-	-	60
Share options expense		30	-	-	-	-	30
FX translation reserve		-	-	(31)	-	-	(31)
Balance at 31 May 2008		54,637	(482)	(31)	-	(170)	53,954
Balance at 1 June 2008		54,637	(482)	(31)	-	(170)	53,954
Profit for the year		-	-	-	-	11,614	11,614
Profit for the year attributable to minority interests		-	-	-	-	(1,879)	(1,879)
External dividends paid		-	-	-	-	(3,400)	(3,400)
2005 Share scheme options exercised	16	482	482	-	-	-	964
Share options expense		78	-	-	-	-	78
2008 Share scheme shares issued	16	918	-	-	-	-	918
2008 Share scheme shares transferred to treasury	16	-	(918)	-	-	-	(918)
Cash flow hedges:							
- Fair value losses		-	-	-	(1,905)	-	(1,905)
- Tax benefit on fair value losses		-	-	-	569	-	569
FX translation reserve		-	-	(697)	-	-	(697)
Balance at 31 May 2009		56,115	(918)	(728)	(1,336)	6,165	59,298
COMPANY	Note	SHARE CAPITAL \$000	TREASURY SHARES \$000	FOREIGN CURRENCY TRANSLATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at 1 June 2007		54,547	(482)	-	-	(16,399)	37,666
Profit for the year		-	-	-	-	3,578	3,578
External dividends paid		-	-	-	-	(5,619)	(5,619)
Exec convertible notes exercised		60	-	-	-	-	60
Share options expense		30	-	-	-	-	30
Balance at 31 May 2008		54,637	(482)	-	-	(18,440)	35,715
Balance at 1 June 2008		54,637	(482)	-	-	(18,440)	35,715
Profit for the year		-	-	-	-	1,211	1,211
External dividends paid		-	-	-	-	(3,288)	(3,288)
2005 Share scheme options exercised	16	482	482	-	-	-	964
Share options expense		78	-	-	-	-	78
2008 Share scheme shares issued	16	918	-	-	-	-	918
2008 Share scheme shares transferred to treasury	16	-	(918)	-	-	-	(918)
Cash flow hedges:							
- Fair value losses		-	-	-	(1,697)	-	(1,697)
- Tax benefit on fair value losses		-	-	-	509	-	509
Balance at 31 May 2009		56,115	(918)	-	(1,188)	(20,517)	33,492

BALANCE SHEET

As at 31 May 2009

	Note	GROUP		COMPANY	
		MAY 2009 \$000	MAY 2008 \$000	MAY 2009 \$000	MAY 2008 \$000
ASSETS					
Non-current assets					
Property, plant and equipment	8	33,985	20,425	260	327
Intangible assets	9	151,553	109,918	127	167
Investments in subsidiaries	10	-	-	84,289	89,487
Investments in associates	11	602	551	-	-
Derivative financial instruments	12	-	12	-	12
Trade and other receivables	13	1,023	878	-	-
Deferred tax assets	14	3,621	1,736	648	96
Total non-current assets		190,784	133,520	85,324	90,089
Current assets					
Cash and cash equivalents		5,047	2,681	921	391
Trade and other receivables	13	28,563	23,478	54,995	20,584
Inventories	15	6,048	3,912	-	-
Current income tax assets		-	-	1,871	1,415
Derivative financial instruments	12	-	61	-	61
Total current assets		39,658	30,132	57,787	22,451
Total assets		230,442	163,652	143,111	112,540
EQUITY					
Share capital	16	55,197	54,155	55,197	54,155
Foreign currency translation reserve		(728)	(31)	-	-
Cash flow hedge reserve		(1,336)	-	(1,188)	-
Retained earnings (accumulated losses)		6,165	(170)	(20,517)	(18,440)
Total equity attributable to equity holders of the parent		59,298	53,954	33,492	35,715
Minority interest		3,193	1,369	-	-
Total equity		62,491	55,323	33,492	35,715
LIABILITIES					
Non-current liabilities					
Borrowings	19	87,809	36,148	72,292	35,400
Non-current payables	21	5,404	1,180	-	-
Deferred tax liabilities	14	243	101	-	-
Derivative financial instruments	12	1,980	-	1,769	-
Deferred acquisition consideration	20	39,060	42,765	34,622	40,019
Total non-current liabilities		134,496	80,194	108,683	75,419
Current liabilities					
Borrowings	19	217	1,198	160	125
Provisions	22	-	-	-	-
Derivative financial instruments	12	55	9	55	-
Current income tax liabilities		1,605	3	-	-
Deferred acquisition consideration	20	1,149	1,646	-	-
Trade and other payables	21	30,429	25,279	721	1,281
Total current liabilities		33,455	28,135	936	1,406
Total liabilities		167,951	108,329	109,619	76,825
TOTAL EQUITY AND LIABILITIES		230,442	163,652	143,111	112,540

STATEMENT OF CASH FLOWS

For the year ended 31 May 2009

	Note	GROUP		COMPANY	
		MAY 2009 \$000	MAY 2008 \$000	MAY 2009 \$000	MAY 2008 \$000
Cash flows from operating activities					
Receipts from customers		184,886	114,520	247	431
Payments to suppliers and employees		(152,737)	(96,198)	(3,574)	(2,232)
Interest received		467	370	54	166
Interest paid		(6,415)	(2,795)	(2,537)	(1,298)
Income tax paid		(5,441)	(6,078)	613	728
Net cash generated from operating activities	28	20,760	9,818	(5,197)	(2,205)
Cash flows from investing activities					
Sale of property, plant and equipment		362	107	-	-
Sale of subsidiaries/businesses		139	320	240	-
Purchase of property, plant and equipment		(15,765)	(9,399)	(39)	(86)
Purchase of subsidiaries/businesses		(54,414)	(14,456)	(2,215)	(2,591)
Advances to subsidiaries		-	-	-	-
Cash balances acquired		-	-	-	-
Other investment income		173	4	509	-
Dividends received		-	-	7,716	8,738
Dividends paid to minority interest shareholders		(329)	1	-	-
Net cash used in investing activities		(69,834)	(23,423)	6,211	6,061
Cash flows from financing activities					
Proceeds from borrowings		56,862	18,442	2,287	2,045
Settlement of borrowings		(944)	-	-	-
Equity raised		482	-	482	-
Dividend paid		(3,288)	(5,980)	(3,288)	(5,618)
Equity repaid		-	-	-	-
Net cash used in financing activities		53,112	12,462	(519)	(3,573)
Net increase/(decrease) in cash held		4,039	(1,143)	495	283
Cash at beginning of the period		1,528	2,671	259	(24)
Cash at end of period		5,567	1,528	754	259
Cash comprises:					
Cash at bank		5,047	2,681	921	391
Bank overdrafts	19	(167)	(1,153)	(167)	(132)
Exchange gain on net assets held by foreign subsidiaries		687	-	-	-
		5,567	1,528	754	259

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 2009, comprise the Company and its subsidiaries (together the Group) and the Group's interest in associates.

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). In complying with NZ IFRS they also comply with IFRS. The Group has designated itself as a profit-oriented entity for the purposes of complying with NZ 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 Company 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 purchase 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, plus costs directly attributable to the acquisition.

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.

Subsidiaries with minority interest shareholdings over which the Company has issued put options to acquire the residual holding, are treated as being 100% owned for the purposes of consolidation.

A liability is recognised for the present value of the expected future

payments to minority interest shareholders (including future dividends), with a corresponding entry to increase goodwill.

The amortisation resulting from the present value movement in this liability is recognised in the income statement as a finance charge. No minority interest is recognised 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.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency. Values are rounded to the nearest thousand dollars.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

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	5 - 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 ASSETS

Assets that are subject to amortisation 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 and loans and receivables. Classification depends on the purpose for which the investments were acquired.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

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 or options are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

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.

Convertible notes

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the liability component is recognised at fair value, determined using the prevailing market interest-rate for an equivalent non-convertible note. The difference between the proceeds of issue of the convertible note and the fair value assigned to the liability component, representing the embedded option for the holder to convert the note to equity, is included in equity.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

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 for restructuring costs 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. Restructuring provisions includes lease termination penalties and employee termination payments. 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 to 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

A segment is a distinguishable component of the Group that is engaged in either providing products and services (business segment) or providing products or services within a particular economic environment (geographical segment), which is subject to the risks and rewards that are different from those of other segments.

The Group's primary reporting format is business segments.

Audiology – This sector provides professional clinical audiology services, particularly hearing tests, the supply and fitting of hearing aid devices, and follow up consultations, all of which are provided to both private patients as well as publicly funded patients. The Group has businesses operating in this sector in New Zealand, Australia, Singapore and Hong Kong.

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 Scanning, 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 Rehabilitation and Orthotics. Brain Rehabilitation includes Residential and Community services encompassing

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

assessment services, rehabilitation programmes, clinical interventions and supported accommodation. The majority of revenue is funded by ACC and 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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTION

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

The Group has recognised the fair value of deferred acquisition considerations in relation put options held by minority shareholders of non-wholly owned subsidiaries. The Group has used its judgement to make assumptions about the future cashflows that will be required to settle the put option.

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.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

	AUDIOLOGY		REHABILITATION		DIAGNOSTICS		DENTAL		TOTAL	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
SEGMENT REVENUE	62,207	43,619	21,343	19,319	35,577	33,721	68,083	27,229	187,210	123,888
OPERATING RESULT¹										
Segment	14,222	11,595	2,573	2,818	5,464	5,034	5,131	1,290	27,390	20,737
Unallocated									(1,868)	(1,536)
Operating result (before interest and taxation)									25,522	19,201
ASSETS										
Segment assets	107,873	91,791	18,501	18,338	33,596	28,553	67,832	22,929	227,802	161,611
Investments in Associates									602	551
Unallocated assets									2,038	1,490
Total assets									230,442	163,652
LIABILITIES										
Segment liabilities	53,213	54,039	1,883	2,001	12,124	11,292	27,606	5,608	94,827	72,940
Unallocated liabilities									73,126	35,389
Total liabilities									167,953	108,329
CAPITAL EXPENDITURE	5,846	2,092	275	427	4,768	6,004	3,225	3,054	14,113	11,577
DEPRECIATION	1,402	840	219	197	1,515	1,335	2,075	966	5,211	3,338
Unallocated									90	88
									5,301	3,426
AMORTISATION	62	253	123	57	77	102	169	44	431	456
Unallocated									56	43
									487	499

¹ Operating results include the allocation of attributable corporate overheads.

Unallocated costs are specific to the Company and include some one-off, non-recurring items for the period to 31 May 2009.

The Group currently operates principally in two geographical segment, being New Zealand and Australia. There is no inter-segment revenue.

	NEW ZEALAND		AUSTRALIA		OTHER		TOTAL	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
SEGMENT REVENUE	148,291	120,957	37,605	2,931	1,314	-	187,210	123,888
ASSETS								
Segment assets	175,598	155,485	47,788	6,126	4,416	-	227,802	161,611
Investments in associates	602	551	-	-	-	-	602	551
Unallocated assets							2,038	1,490
Total assets							230,442	163,652
CAPITAL EXPENDITURE	10,702	11,070	3,168	507	242	-	14,113	11,577

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUE

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Sale of goods	62,250	46,839	-	-
Services rendered	124,960	77,049	-	-
Management fees	-	-	228	213
	187,210	123,888	228	213

4. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Operating expenses include:				
Directors' fees	392	376	308	258
Donations	28	17	23	11
Net loss on sale of fixed assets	55	28	-	-
Rental expense on operating leases	9,071	5,204	104	103
Auditors' fees				
Audit services	467	302	110	101
Other assurance services ¹	34	58	29	5

¹ Mainly includes the provision of accounting technical advice. Additional fees totalling \$76,387 (2008: \$16,000) paid for services in relation to acquisition activity were capitalised during the year.

5. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Operating income includes:				
Dividends received from subsidiaries	-	-	7,716	8,738
Gain on sale of investment	43	166	-	154
Sundry other income	100	104	-	-
	143	270	7,716	8,892

6. NET FINANCING COSTS

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Financial income				
Cash and cash equivalents - interest received	307	344	54	166
Trade and other receivables - interest received	-	43	-	-
Fair value gain on interest swaps	-	19	-	-
	307	406	54	166
Financial expenses				
Bank borrowings - interest and facility fees paid	(5,669)	(1,174)	(2,577)	-
Other borrowings - interest paid	(574)	(1,621)	-	(1,298)
Fair value loss on interest swaps	(200)	(191)	(200)	(191)
Fair value amortisation on put options	(2,016)	(2,281)	(2,016)	(2,281)
	(8,459)	(5,267)	(4,793)	(3,770)
Net financing costs	(8,152)	(4,861)	(4,739)	(3,604)

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current tax expense				
Current year	6,965	6,199	(1,836)	(1,350)
(Over) / under provision for prior years	174	136	67	62
	7,139	6,335	(1,769)	(1,288)
Deferred tax expense				
Movement in temporary differences	(1,132)	(72)	(43)	(143)
Under provision for prior years	(20)	140	192	132
Recognition/(Utilisation) of tax losses	-	(724)	-	-
	(1,152)	(657)	149	(11)
Total income tax expense in income statement	5,987	5,678	(1,620)	(1,299)

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Reconciliation of accounting profit and taxable income				
Profit before tax	17,601	14,513	(409)	2,279
Taxation at 30%	5,280	4,847	(123)	752
Non deductible put option	-	-	605	752
Non deductible items	776	890	115	52
Tax exempt dividends	-	-	-	(893)
Gross up imputation credits	-	-	1,011	980
Imputation credits	-	-	(3,371)	(2,971)
Non assessable items	(76)	(108)	(115)	(51)
Impact of change in imputation ratio	(147)	-	-	-
Impact of tax rate change	-	88	-	10
Prior period adjustment	154	(39)	258	70
Total income tax expense in income statement	5,987	5,678	(1,620)	(1,299)

	COMPANY	
	2009 \$000	2008 \$000
Imputation credit account		
Balance at beginning of year	103	2,553
Net tax payments/(refunds)	(160)	-
Credits lost through loss of shareholder continuity	-	(2,757)
Credits attached to dividends received	3,536	2,971
Credits attached to dividends paid	(1,602)	(2,664)
Balance at end of year	1,877	103
Imputation credits available to shareholders of the parent company:		
Through the parent	1,877	103
Through subsidiaries	3,103	2,806
	4,980	2,909

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

GROUP	\$000	LAND & BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	WORK IN PROGRESS
AT 1 JUNE 2007					
Cost or valuation	23,348	5,604	16,742	964	38
Accumulated depreciation	(11,263)	(2,490)	(8,277)	(496)	-
Net Book Value	12,085	3,114	8,465	468	38
YEAR ENDED 31 MAY 2008					
Opening net book value	12,085	3,114	8,465	468	38
Acquired through business combinations	985	109	876	-	-
Additions	10,834	3,580	6,199	90	965
Disposals	(111)	(17)	(59)	(35)	-
Exchange differences	58	23	35	-	-
Depreciation	(3,426)	(991)	(2,297)	(138)	-
Closing Net Book Value	20,425	5,818	13,219	385	1,003
AT 1 JUNE 2008					
Cost or valuation	35,114	9,299	23,793	1,019	1,003
Accumulated depreciation	(14,689)	(3,481)	(10,574)	(634)	-
Net Book Value	20,425	5,818	13,219	385	1,003
YEAR ENDED 31 MAY 2009					
Opening net book value	20,425	5,818	13,219	385	1,003
Acquired through business combinations	8,181	520	7,649	12	-
Additions	12,099	4,004	8,012	83	-
Disposals	(1,434)	(103)	(362)	(4)	(965)
Exchange differences	14	17	(5)	2	-
Depreciation	(5,300)	(1,515)	(3,646)	(139)	-
Closing Net Book Value	33,985	8,741	24,867	339	38

Plant & equipment and motor vehicles include the following amounts where the Group is a lessee under a finance lease:

	PLANT & EQUIPMENT		MOTOR VEHICLES	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Cost - capitalised finance leases	7,303	1,496	101	98
Accumulated depreciation	(997)	(410)	(35)	(18)
Net Book Value	6,305	1,086	66	80

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT CONTINUED

COMPANY	\$000	LAND & BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	WORK IN PROGRESS
AT 1 JUNE 2007					
Cost or valuation	649	337	312	-	-
Accumulated depreciation	(241)	(82)	(159)	-	-
Net Book Value	408	255	153	-	-
YEAR ENDED 31 MAY 2008					
Opening net book value	408	255	153	-	-
Additions	7	-	7	-	-
Depreciation	(88)	(56)	(32)	-	-
Closing Net Book Value	327	199	128	-	-
AT 1 JUNE 2008					
Cost or valuation	656	337	319	-	-
Accumulated depreciation	(329)	(138)	(191)	-	-
Net Book Value	327	199	128	-	-
YEAR ENDED 31 MAY 2009					
Opening net book value	327	199	128	-	-
Acquired through business combinations	-	-	-	-	-
Additions	23	-	23	-	-
Disposals	-	-	-	-	-
Exchange differences	-	-	-	-	-
Depreciation	(90)	(56)	(34)	-	-
Closing Net Book Value	260	143	117	-	-

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	OTHER	TOTAL \$000	GOODWILL	OTHER	TOTAL \$000
AT 1 JUNE 2007						
Cost or valuation	90,416	3,177	93,593	65	176	241
Accumulated amortisation	(2,156)	(2,392)	(4,548)	(65)	(45)	(110)
Net Book Value	88,260	785	89,045	-	131	131
YEAR ENDED 31 MAY 2008						
Opening net book value	88,260	785	89,045	-	131	131
Additions	9,552	1,337	10,889	-	79	79
Disposals	(744)	(23)	(767)	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-
Exchange differences	-	6	6	-	-	-
Fair value put option	11,244	-	11,244	-	-	-
Amortisation charge	-	(499)	(499)	-	(43)	(43)
Closing Net Book Value	108,312	1,606	109,918	-	167	167
AT 1 JUNE 2008						
Cost or valuation	110,469	4,497	114,966	65	255	320
Accumulated amortisation	(2,156)	(2,891)	(5,047)	(65)	(88)	(153)
Net Book Value	108,313	1,606	109,919	-	167	167
YEAR ENDED 31 MAY 2009						
Opening net book value	108,313	1,606	109,919	-	167	167
Additions	39,686	2,112	41,798	-	33	33
Disposals	(1,911)	(153)	(2,064)	-	(17)	(17)
Acquisition of subsidiary	6,951	-	6,951	-	-	-
Exchange differences	-	(5)	(5)	-	-	-
Fair value put option	(4,559)	-	(4,559)	-	-	-
Amortisation charge	-	(487)	(487)	-	(56)	(56)
Closing Net Book Value	148,480	3,073	151,553	-	127	127

Impairment test for goodwill

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

	2009 \$000	2008 \$000
Audiology	75,952	67,941
Rehabilitation	13,240	13,240
Diagnostics	12,699	13,514
Dental	46,589	13,617
	148,480	108,312

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 as approved by the Board. These forecasts cover a four-year period.

Cash flows beyond the four-year period are extrapolated using an estimated growth rate of 2%. The growth rate does not exceed the long-term average growth rate for the sectors in which the CGUs operate. Cash flows are discounted as a pre-tax discount rate of 10.73%. The value-in-use calculation supports the carrying amount of the recorded goodwill at year end.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Shares in subsidiaries	-	-	84,288	89,487

The Company's investments in subsidiaries comprises shares at cost, including amounts payable under put options held by minority interest shareholders.

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

NAME OF ENTITY	Note	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
			2009	2008
Abano Dental Limited		Dental	100%	100%
Abano Rehabilitation Limited		Rehabilitation	100%	100%
Aotea Pathology Limited		Diagnostic	55%	55%
Ascot Radiology Limited		Diagnostic	73%	73%
Bay Audio Pty Limited		Audiology	82%	82%
Bay Audiology Limited		Audiology	70%	70%
Bay Audiology (Hong Kong) Limited		Audiology	85%	0%
Bay Audiology (Singapore) PTE Limited		Audiology	85%	0%
Bay Audiology South Limited		Audiology	85%	0%
Dental Partners Pty Limited		Dental	70%	0%
Kidz Teeth Limited		Dental	70%	0%
Insight Radiology Limited		Diagnostic	80%	0%
Lumino Dental Limited		Dental	100%	100%
Orthotic Centre (NZ) Limited		Rehabilitation	100%	100%
Orthotic Centre (Midlands) Limited		Rehabilitation	67%	67%
Orthotic Centre (Wellington) Limited		Rehabilitation	100%	100%
Wellington Pathology Limited		Diagnostic	100%	100%

The balance date of all subsidiaries is 31 May.

The minority interest shareholders of Bay Audiology hold put options that require the Group acquire their respective share holdings at various exercise dates. The Group's liability to the holders of these put options is recognised in the balance sheet as deferred acquisition consideration, and is offset by an increase in goodwill (refer note 20). The goodwill recognised is attributable to the future profitability of the acquired business.

The operating results of this business have been included in the income statement from acquisition date. In accordance with Group accounting policy, no minority interest expense is recognised in relation to this subsidiary.

Bay Audio Pty Limited and Dental Partners Pty Limited are incorporated in Australia, Bay Audiology (Hong Kong) Limited is incorporated in Hong Kong and Bay Audiology (Singapore) PTE Limited is incorporated in Singapore.

All other entities are incorporated in New Zealand.

ACQUISITION OF SUBSIDIARIES

Current Year

On 10 June 2008, the Group acquired a 70% shareholding in Dental Partners Pty Limited, an Australian dental business, for \$12.5M.

On 29 August 2008, the Group acquired a 90% shareholding in Dunedin Hearing Limited for \$3.2M. On acquisition the name of the company was changed to Bay Audiology South Limited and 5% of the Group's shareholding was sold to the General Manager of the company.

On 14 November 2008, the Group acquired 80% of Insight Radiology Limited, a specialist radiology practice in Auckland, for \$2.1M.

Prior Year

No new subsidiaries were acquired during the prior year.

In November 2007, Ascot Radiology Limited and Greenlane Imaging Limited were amalgamated. Abano held an 80% shareholding in both companies.

On 30 November 2007 several new associate radiologists were introduced as equity partners and Abano sold 4% of its shares, therefore reducing its shareholding to 76%.

On 30 May 2008 additional new associate radiologists were introduced as equity partners and Abano sold a further 3% of its shares, reducing its shareholding to 73%.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES CONTINUED

ACQUISITION OF BUSINESSES

During the year the Group acquired the following businesses:

Tweed Dental Centre (Northern NSW)	26 Jun 2008	Modern Dentistry (Canberra)	10 Oct 2008
Coyne Dental (Gold Coast)	26 Jun 2008	Dr Boyle (Canberra)	29 Oct 2008
Lynch Dental (Sydney)	27 Jun 2008	Glenelg Dental (Adelaide)	14 Nov 2008
Coastal Orthodontics (Northern NSW)	27 Jun 2008	Allenby Gardens Dental (Adelaide)	14 Nov 2008
The Family Dental Centre (Sydney)	27 Jun 2008	Dr Frame (Sydney)	28 Nov 2008
Totally Teeth (Gold Coast)	1 Jul 2008	City Dental Tauranga (Tauranga)	30 Nov 2008
Dental Solutions (Sunshine Coast)	1 Jul 2008	Dynasound (Hong Kong)	1 Dec 2008
Dental Designs (Auckland)	1 Jul 2008	Sountex Singapore (Singapore)	1 Dec 2008
Dr Derry Rogers (Melbourne)	2 Jul 2008	Sountex Migeis (Singapore)	1 Dec 2008
The Dental Centre (Brisbane)	3 Jul 2008	Lincoln Dental (Canterbury)	19 Dec 2008
Manly Dental (Whangaparoa)	31 Jul 2008	Tamatea Dental (Napier)	1 Feb 2009
Kings Hearing (Queensland)	7 Aug 2008	Sountex Klin (Singapore)	1 Feb 2009
Torbay Dental (Auckland)	31 Aug 2008	Dr Boyatzis (NSW)	16 Feb 2009
Proudmouth (Auckland)	31 Aug 2008	Northside Orthodontics (Queensland)	20 Mar 2009
Greenwood Dental (Sydney)	26 Sep 2008	Simply Smiles (Queensland)	27 Mar 2009
Kidz Teeth (Auckland)	30 Sep 2008	Inspired Dental (Auckland)	3 Apr 2009

Summary of the effect of the acquisitions:

	DENTAL \$000	AUDIOLOGY \$000	TOTAL \$000
Fair value of net assets acquired:			
Current assets	1,549	381	1,930
Current liabilities	(432)	(512)	(944)
Non-current liabilities	-	-	-
Non-current assets	7,800	262	8,062
Acquisition costs	1,317	559	1,876
Goodwill on acquisition	28,676	5,911	34,587
Consideration paid	38,910	6,601	45,511
Deferred acquisition consideration	4,041	-	4,041
Total Consideration	42,951	6,601	49,552
Goodwill on acquisition	28,676	5,911	34,587
Deferred acquisition consideration	4,041	-	4,041
Acquisition costs	1,317	559	1,876
Total goodwill recognised	34,034	6,470	40,504

The contribution of the Group EBITDA, after additional related support costs, since acquisition to 31 May 2009 is \$5.7M. The revenue and EBITDA had the trade and assets been acquired at the beginning of the period are estimated at \$59.8M and \$9.1M respectively.

The goodwill is attributable to the economies of scale from combining the operations of these businesses with the existing operations of the Group.

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS IN ASSOCIATES

The Group's investments in associates comprises:

	INTEREST HELD			
	2009	2008		
Dilworth Audiology Limited	40%	40%		

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Balance at beginning of the year	551	477	-	-
Share of profit/(loss)	231	173	-	-
Dividends	(180)	(99)	-	-
Balance at end of the year	602	551	-	-

Summary of financial information for significant associates:

	DILWORTH AUDIOLOGY LIMITED	DILWORTH AUDIOLOGY LIMITED
	2009 \$000	2008 \$000
Assets	1,972	1,647
Liabilities	(933)	(794)
Equity	1,039	853
Revenues	5,982	5,402
Profit	596	449

12. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP 2009		GROUP 2008	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest-rate swaps - cash flow hedges	-	2,035	73	-
Forward foreign exchange contracts - fair value through profit & loss	-	-	-	9
	-	2,035	73	9
Less non-current portion				
Interest-rate swaps - cash flow hedges	-	1,980	12	-
	-	1,980	12	-
CURRENT PORTION	-	55	61	9

Interest-rate Swaps

The notional principal amounts of outstanding interest-rate swap contracts at 31 May 2009 were \$63.8M (2008: \$21.5M). At 31 May 2009 the fixed rates vary from 3.4-8.1% (2008: 6.2-8.1%) and the floating rates are BKBM.

The ineffective portion of the cash flow hedges above have been expensed in the income statement. This was a loss of \$200,000 (2008: \$191,000).

Foreign exchange forward contract

The notional principal amounts of outstanding forward contracts at 31 May 2009 was nil (2008: \$0.4M).

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

NOTES TO THE FINANCIAL STATEMENTS

13. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current				
Trade receivables	19,349	15,099	-	14
Prepayments	1,650	894	60	109
Other receivables	7,368	7,142	24	269
Owing from related parties	196	343	-	-
Owing from subsidiaries	-	-	54,911	20,192
	28,563	23,478	54,995	20,584
Non-Current				
Owing from related parties	1,023	878	-	-
Other non-current receivables	-	-	-	-
	1,023	878	-	-
Impaired trade and other receivables				
Neither past due or impaired	23,215	20,778		
Past due but not impaired	5,348	2,700		
Impaired	793	221		
Gross	29,356	23,699		
Less provision for impairment of receivables	(793)	(221)		
	28,563	23,478		

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

Opening balance	221	222
Provision for doubtful debt recognised during the year	599	124
Release of over accrued doubtful debt in prior year	-	-
Receivables written off during the year as uncollectable	(27)	(125)
Closing balance	793	221

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	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Balance at start of year	1,635	995	96	(47)
Acquisition of subsidiary	42	(156)	-	-
Charge to equity	569	-	509	-
Benefit of tax loss recognised	-	724	-	-
Income statement charge	1,132	72	43	143
Balance at end of year	3,378	1,635	648	96

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

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Property, plant and equipment	(450)	39	3	(6)
Employee benefits	1,321	803	98	124
Trade and other receivables	20	88	-	-
Trade and other payables	762	-	-	-
Provisions	-	-	-	-
Benefit of tax loss recognised	1,115	725	-	-
Other items	610	(19)	547	(22)
	3,378	1,635	648	96

15. INVENTORIES

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Raw materials and consumables	3,001	1,769	-	-
Work in progress	136	155	-	-
Finished goods and goods for sale	2,911	1,988	-	-
	6,048	3,912	-	-

The Group has recognised a loss of \$7,000 (2008: \$63,000) in respect of inventories written down. The loss has been included in Change in Inventories 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 2007		23,010	54,547	(482)	54,065
Employee convertible note scheme - proceeds from shares issued		20	60		60
Executive compensation scheme - value of services provided	25		30		30
At 31 May 2008		23,030	54,637	(482)	54,155
Executive compensation scheme - value of services provided		-	78	-	78
2005 Executive share scheme - Reclassification of bonus as share option taken	25	-	-	482	482
- Put expired, shares issued & paid for	25	-	482	-	482
2008 Executive share scheme - Transfer to treasury stock	25	203	918	-	918
		-	-	(918)	(918)
At 31 May 2009		23,233	56,115	(918)	55,197

As at 31 May 2009 there were 23,232,608 ordinary shares on issue (2008: 23,029,503). 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:

Old Executive Share Scheme

On 23 March 2006, 308,974 shares were issued under the employee share scheme approved by shareholders on 23 September 2005. The scheme ended on 23 March 2009. The board confirmed the performance criteria had been met over the duration of the scheme and the employees elected to acquire all 308,974 shares issued under the scheme for the original issue price of \$1.56 per share. The shares were transferred from treasury shares to ordinary shares and there are now no outstanding obligations under this scheme.

New Executive Share Scheme

On 1 December 2008, 203,097 shares were issued under the employee share scheme approved by shareholders on 25 November 2008. Under the share scheme, certain employees are entitled to purchase the shares at their original issue price of \$4.52 per share provided certain performance criteria are met over the duration of the scheme.

The employees are not entitled to the shares or any dividends/benefits attaching to the shares during the duration of the scheme.

At the end of the scheme on 31 May 2011 the shares will either be acquired by the employee or cancelled by the company, depending on which performance criteria have been met. Until this time, the shares are treated as treasury shares of the company.

NOTES TO THE FINANCIAL STATEMENTS

17. EARNINGS PER SHARE

	GROUP	
	2009 \$000	2008 \$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	9,735	7,823
Weighted average number of ordinary shares on issue	23,130	23,030
Basic earnings per share (cents)	42.09	33.97
Diluted earnings per share		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Weighted average number of ordinary shares on issue	23,130	23,030
Weighted average number of convertible notes	-	-
Weighted average number of shares and notes	23,130	23,030
Diluted earnings per share (cents)	42.09	33.97

18. DIVIDENDS - ORDINARY SHARES

			GROUP		COMPANY	
	2009 Cents	2008 Cents	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Interim dividend for the year ended 31 May 2009	9	-	2,118	-	2,118	-
Final dividend for the year ended 31 May 2008	5	-	1,169	-	1,169	-
Interim dividend for the year ended 31 May 2008	-	13	-	3,044	-	3,044
Final dividend for the year ended 31 May 2007	-	11	-	2,575	-	2,575
Dividends paid to minority interests	-	-	113	269	-	-
	14	24	3,400	5,888	3,287	5,619

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

Supplementary dividends of \$45,110 (2008: \$90,608) were paid to shareholders not tax resident in New Zealand of which the Company received a foreign investor tax credit entitlement.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current borrowings				
Bank overdraft	167	1,153	167	132
Unsecured loans	50	45	(7)	(7)
	217	1,198	160	125
Non-current borrowings				
Secured bank loans	87,118	35,400	72,292	35,400
Unsecured loans	691	748	-	-
	87,809	36,148	72,292	35,400
Term schedule				
Later than one year, less than two	72,354	56	72,292	-
Later than two years, less than five	15,137	35,604	-	35,400
Over five years	318	488	-	-
	87,809	36,148	72,292	35,400

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

At year end the Group had a \$80M term debt facility with ASB Bank. The initial term of four years has been extended by one year, as allowed for under the loan agreement, and the facility will mature in February 2011. The current interest rate on this facility is 3.73%. Remaining funds of \$7.7 M were undrawn at balance date. In July 2009 an additional \$20M facility was established with ASB Bank (refer note 26).

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. The current interest rate on this facility is 5.35%. Remaining funds of \$16.6M (\$AUD 13.2M) were undrawn at balance date.

The Group's overdraft facilities have a limit of \$3M, with a current interest rate of 4.0%.

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, 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 as follows:

	WITHIN 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
As at 31 May 2009				
Total borrowings	167	86,800	-	86,967
Effect of interest-rate swaps (note 12)	(2,000)	(54,816)	(7,000)	(63,816)
	(1,833)	31,984	(7,000)	23,151
As at 31 May 2008				
Total borrowings	1,153	34,912	-	36,065
Effect of interest-rate swaps (note 12)	(3,000)	(7,000)	-	(10,000)
	(1,847)	27,912	-	26,065

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED ACQUISITION CONSIDERATION

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current deferred acquisition consideration				
Put option liabilities	-	-	-	-
Acquisition retention amounts	424	483	-	-
Acquisition earn-out liabilities	725	1,163	-	-
	1,149	1,646	-	-
Non-current deferred acquisition consideration				
Put option liabilities	34,622	40,019	34,622	40,019
Acquisition retention amounts	1,166	1,649	-	-
Acquisition earn-out liabilities	3,272	1,097	-	-
	39,060	42,765	34,622	40,019
Term schedule				
Later than one year, less than two	37,171	572	34,622	-
Later than two years, less than five	1,829	42,148	-	-
Over five years	60	45	-	-
	39,060	42,765	34,622	-

The put option liability relate to an option issued by the Company to minority interest shareholders of a subsidiary (refer note 10). The put option liability is measured at fair value, being the net present value of managements forecast cash outflows for settling liabilities owed to minority interest shareholders (including future dividends). The put option agreement has a pre-determined formula for calculating the amount payable to acquire the shares, based on a multiple of the earnings of that company.

Assumptions made by management in the forecast of future earnings is that the company's will perform to the Group's forecast. The amount calculated is discounted at a rate of 2.61%, being the Group's after tax debt interest rate at 31 May 2009.

Acquisition retention amounts represent the portion of the purchase price of dental, radiology and audiology 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 managements forecast of amounts due to vendors of dental and audiology acquisitions for future performance in excess of the agreed targets at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

21. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current				
Accounts payable	16,572	11,732	147	31
Employee entitlements	6,549	6,751	452	864
Directors' fees	72	22	72	22
Finance leases	1,009	251	-	-
Sundry creditors and accruals	6,227	6,523	50	364
	30,429	25,279	721	1,281
Non-current				
Finance leases	5,253	1,025	-	-
Employee entitlements	151	155	-	-
	5,404	1,180	-	-

22. PROVISIONS

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
RESTRUCTURING PROVISION				
Balance at start of year	-	188	-	-
Provisions made during the year	-	-	-	-
Provisions used during the year	-	(188)	-	-
Balance at end of the year	-	-	-	-
Current	-	-	-	-
Non-current	-	-	-	-
	-	-	-	-

Current Year

No provisions were made during the year.

Prior Year

During March 2006 the Company restructured its operations within the Rehab sector through closure of three branches of Burtons & Health Partners. The remaining balance of \$37,000 was expensed during the 2007/08 year.

In October 2006 operations in the Diagnostic sector were restructured due to the formation of Aotea Pathology Limited. Operations at 22 Kings Crescent in Wellington ceased and a provision of \$151,000 was recognised for residual costs to be incurred. These costs were expensed during the 2007/08 year.

NOTES TO THE FINANCIAL STATEMENTS

23. LEASES

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
OPERATING LEASES				
Non-cancellable operating lease obligations				
Not later than one year	5,736	4,437	124	106
Later than one year, not later than five	9,414	8,765	165	353
Later than five years	1,681	64	-	-
Total lease commitments	16,831	13,266	288	459
FINANCE LEASES				
Non-cancellable finance lease obligations				
Not later than one year	1,009	251	-	-
Later than one year, not later than five	4,606	1,002	-	-
Later than five years	647	23	-	-
Total lease commitments	6,262	1,276	-	-

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.

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
24. COMMITMENTS				
Amount committed to capital expenditure	321	3,132	-	-

As at 31 May 2009 the Group has a capital commitment in relation to the purchase of plant and equipment for the following subsidiaries:

Dental Partners Pty Limited	\$250,849	(AUD \$199,500)
Bay Audiology (Hong Kong) Limited	\$70,000	(HKD \$339,000)

Prior Period

As at 31 May 2008 the Group had a capital commitment of \$3,132,000 in relation to the purchase of an MRI scanner and mammography equipment for Ascot Radiology's new site at Ascot Central in Remuera, Auckland.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENTS

2005 Executive Share Scheme

On 23 September 2005 shareholders approved the Executive Share Scheme (the Scheme). The Scheme provides for certain employees to be issued shares (Share Scheme Shares), for which the Company provides an interest free loan. 308,974 Share Scheme Shares were issued on 23 March 2006, at \$1.56 per share, being the average closing price over the previous five trading days. A loan of \$482,000 was provided to employees on this date to acquire the Share Scheme Shares.

The employees met the performance criteria of the scheme and remained in employment with the Company during the three year term of the Scheme. At the end of the Scheme term, the share options were taken by all employees and the loan of \$482,000 was repaid. All obligations under the Scheme have been met and the Scheme is now at an end.

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 option was valued at \$149,094 and the Group is amortising this value over the period of service. During the current year \$49,698 was charged to the income statement as executive remuneration.

Set out below is a summary of movements in the number of shares attached to cash benefits granted under the schemes:

GRANT DATE	EXPIRY DATE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	BALANCE AT END OF THE YEAR
31 May 2009					
1-Dec-09	31-May-11	-	203,097	-	203,097
23-Mar-06	23-Mar-09	308,974	-	(308,974)	-
TOTAL		308,974	203,097	(308,974)	203,097
31 May 2008					
23-Mar-06	23-Mar-09	308,974	-	-	308,974
TOTAL		308,974	-	-	308,974

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED-PARTY INFORMATION

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

Related-party transactions

The Group leases premises from interests associated with Mr P Hutson, Ms A Andrews and Mr S Wright who are all associated persons. During the year rentals totalling \$272,632 (2008: \$266,000) were paid by the Group. A balance of \$NIL is owed by the Group at 31 May 2009 (2008: \$27,000). All leases are carried out at arms length and on normal commercial terms.

The Group has a loan to Mr P Hutson for \$75,000 (2008: \$79,000) provided for the purchase of shares in subsidiaries of Bay Audiology Limited. The loan is to be repaid from future dividends of these companies.

The Group has a loan to Mr S Melville for \$44,000 (2008: \$NIL) in relation to the purchase of shares in Bay Audiology South Limited. Mr Melville is an associated person. The loan is to be repaid from future dividends of the company.

The Group has a loan to Mr A Campbell for \$15,000 (2008: \$14,000) in relation to the purchase of shares in Bay Audiology Pty Limited. Mr Campbell is an associated person. The loan is to be repaid from future dividends of the company.

The Group leases premises from interests associated with Mr M Timoney who is an associated person. During the year rentals totalling \$215,216 (2008: \$NIL) were paid by the Group. No monies were owed by the Group at 31 May 2009 and the lease was carried out at arms length and on normal commercial terms. In June 2008 the Group acquired a dental practice from interests associated with Mr Timoney for \$2.78M. The transaction was carried out at arms length, on normal commercial terms and was approved by the board.

The Group has loans to the following persons for the purchase of shares in Ascot Radiology Limited. Dr P Weeks \$318,000 (2008: \$327,000), Dr A Doyle \$319,000 (2008: \$245,000), Dr D Davies-Payne \$238,000 (2008: \$245,000) and Dr S Urry \$162,000 (2008: \$NIL). All are associated persons. The loans are to be repaid from future dividends of the company.

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 \$948,000 (2008: \$998,000) were provided by CME Radiology Services Limited. A balance of \$15,000 is owed by the Group at 31 May 2009 (2008: \$20,000).

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 an associated person. During the year services to the value of \$222,000 (2008: \$222,000) were provided by El Rayo X Limited. A balance of \$8,000 is owed by the Group at 31 May 2009 (2008: \$10,000).

The Group utilises the services of RND Services Limited for the provision of radiology services. Dr R Davies (minority shareholders in Insight Radiology Limited) hold an interest in RND Services Limited and is an associated person. During the year services to the value of \$155,000 (2008: \$NIL) were provided by RND Services Limited. A balance of \$15,000 is owed by the Group at 31 May 2009 (2008: \$NIL).

Valley Diagnostics Laboratories Limited (VDL) has a 45% shareholding in Aotea Pathology Limited. At 31 May 2009 VDL's shareholder current account balance was \$48,000 payable to Aotea (2008: \$504,000 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 \$54.91M was owing by subsidiaries (2008: \$20.306M).

The key management compensations are as follows:

	GROUP		COMPANY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Key Management compensation				
Short-term benefits	7,099	5,299	1,256	1,447
Other long-term benefits	360	161	338	161
Share-based payments	78	30	78	30
	7,537	5,490	1,672	1,638

NOTES TO THE FINANCIAL STATEMENTS

27. SUBSEQUENT EVENTS

In July 2009 the Group increased its term debt facility with ASB Bank by \$20M to \$100M. An initial term of four years is provided for the additional facility, maturing 31 March 2013.

BUSINESS ACQUISITIONS

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

Dr Kerry Roberts (NSW, Australia)	5 Jun 2009
Remuera Dental Centre (Auckland, New Zealand)	12 Jun 2009

Summary of the effect of the acquisitions:

	DENTAL \$000
Fair value of net assets acquired:	
Current assets	16
Current liabilities	(38)
Non-current liabilities	-
Non-current assets	209
Acquisition costs	79
Goodwill on acquisition	1,586
Consideration paid	1,852
Deferred acquisition consideration	309
Total Consideration	2,161
Goodwill on acquisition	1,147
Deferred acquisition consideration	309
Acquisition costs	44
Total goodwill recognised	1,500

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:

- **NZ IFRS8: Operating Segments (mandatory for annual periods beginning on or after 1 January 2009).** NZ IFRS 8 replaces IAS 14 "Segment Reporting", and requires a 'management approach'. This means the segments need to be presented on the same basis as that used for internal reporting purposes. When the Group applies the standard it is expected there will be some changes to the presentation of the segment note (Note 8)
- **NZ IFRS3, Business Combinations (Revised) and NZ IAS27, Consolidated and Separate Financial Statements (Revised) (mandatory for annual periods beginning on or after 1 July 2009)**
The revised standard continues to apply the acquisition method to business combinations but with some significant changes to the treatment of transaction costs and contingent consideration. The Group will simultaneously adopt the changes to NZ IAS 27 (Revised) "Consolidated and separate financial statements". When the Group adopts these standards it does not expect material changes to the Group's measurement of acquisitions and disclosures of financial statements
- **NZ IAS1 (Amendments): Presentation of financial statements (mandatory for annual periods beginning on or after 1 January 2009)**
The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the Statement of Changes in Equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the Statement of Comprehensive Income) or two statements (the Income Statement and Statement of Comprehensive Income). It is expected that when the Group applies this standard there will be some changes to the presentation of the financial statements
- **NZ IFRS2 Share-Based Payments (effective from annual periods beginning on or after 1 January 2009)**
The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. It is not expected to have a material impact on the Group's financial statements when the standard is applied
- **NZ IFRS5 (Amendment), Non-current assets held-for-sale and discontinued operations (effective from annual periods beginning on or after 1 July 2009)**
The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 April 2010
- **NZ IAS36 (Amendment), Impairment of assets (effective from annual periods beginning on or after 1 January 2009)**
The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 April 2009. As the Group currently uses value-in-use calculations for impairment testing no changes in disclosures are anticipated
- **NZ IAS19 (Amendment), Employee benefits (mandatory for annual periods beginning on or after 1 January 2009)**
The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The Group will apply the IAS 19 (Amendment) from 1 April 2009

There are a number of minor amendments to NZ IFRS 7, "Financial instruments: Disclosures"; NZ IAS8, "Accounting policies, changes in accounting estimates and errors"; NZ IAS10, "Events after the reporting period"; NZ IAS18, "Revenue" and NZ IAS34, "Interim financial reporting", which are part of the IASB's annual improvements project published in May 2008. These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

NOTES TO THE FINANCIAL STATEMENTS

28. RECONCILIATION OF OPERATING CASHFLOWS

For the year ended 31 May 2009

	GROUP		COMPANY	
	MAY 2009 \$000	MAY 2008 \$000	MAY 2009 \$000	MAY 2008 \$000
Profit for the period	9,735	7,823	1,211	3,578
Non-cash items:				
Depreciation	5,786	3,426	89	88
Amortisation of intangible assets	-	499	56	43
Utilisation/(recognition) of deferred tax asset	(1,312)	(640)	(552)	(143)
Interest expense on financial liabilities	-	-	40	-
Amortisation of put option fair value	2,016	2,281	2,016	2,281
Interest income on financial assets	-	-	-	-
Fair value movement on derivatives	199	172	200	191
Executive compensation expense	78	90	560	90
Share of surplus retained by associates	1,879	1,012	-	-
	8,646	6,840	2,409	2,550
Movement in working capital:				
(Increase)/decrease in trade and other receivables	(7,465)	(9,710)	68	286
(Decrease)/increase in trade and other payables	10,121	5,179	(1,170)	274
(Decrease)/increase in deferred income	(56)	(1)	-	-
	2,600	(4,532)	(1,102)	559
Items classified as investing activities:				
Realised (gain)/loss on sale of property, plant and equipment	53	27	-	-
Realised (gain)/loss on sale of subsidiaries	(43)	(166)	-	-
Dividends received	-	-	(7,716)	(8,738)
Other investment income	(231)	(174)	-	(155)
	(221)	(313)	(7,716)	(8,893)
Net cash flows from operating activities	20,760	9,818	(5,198)	(2,205)

29. FINANCIAL MANAGEMENT RISK

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk & 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, Australian, Hong Kong and Singaporean based subsidiaries are made in their respective local currencies.

NOTES TO THE FINANCIAL STATEMENTS

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, in Australia are held in AUD, in Hong Kong are held in HKD, and in Singapore are held in SGD.

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 swaps. The Group's policy on managing interest rate risk is that a minimum of 60% to a maximum of 90% of borrowings are covered by 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%	
2009		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Cash and cash equivalents	24,946	(249)	(249)	249	249	206	206	(169)	(169)
Accounts receivable	26,855	-	-	-	-	336	336	(275)	(275)
		(249)	(249)	249	249	542	542	(444)	(444)
Financial liabilities									
Interest rate swaps	(2,035)	(37)	(37)	37	37	(23)	(23)	19	19
Trade payables	(30,431)	-	-	-	-	(725)	(725)	593	593
Deferred acquisition consideration	(40,209)	267	267	(269)	(269)	(292)	(292)	239	239
Borrowings	(88,026)	880	880	(880)	(880)	(1,647)	(1,647)	1,348	1,348
		1,110	1,110	(1,112)	(1,112)	(2,687)	(2,687)	2,199	2,199
Total		861	861	(863)	(863)	(2,145)	(2,145)	1,755	1,755
2008									
Financial assets									
Cash and cash equivalents	2,681	(27)	(27)	27	27	39	39	(32)	(32)
Accounts receivable	24,356	-	-	-	-	104	104	(85)	(85)
Interest rate swaps	73	(13)	(13)	13	13	-	-	-	-
		(40)	(40)	40	40	143	143	(117)	(117)
Financial liabilities									
Foreign exchange contracts	9	-	-	-	-	-	53	-	(44)
Trade payables	(25,383)	-	-	-	-	(170)	(170)	139	139
Deferred acquisition consideration	(44,411)	256	256	(250)	(250)	-	-	-	-
Borrowings	(37,346)	373	373	(373)	(373)	-	-	-	-
		629	629	(623)	(623)	(170)	(117)	139	96
Total		590	590	(584)	(584)	(27)	26	22	(21)

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL MANAGEMENT RISK CONTINUED

COMPANY	CARRYING AMOUNT \$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		(1.0)		1.0%		(10.0)		10.0%	
2009		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Cash and cash equivalents	921	(9)	(9)	9	9	-	-	-	-
Interest rate swaps	-	-	-	-	-	-	-	-	-
		(9)	(9)	9	9	-	-	-	-
Financial liabilities									
Interest rate swaps	(1,824)	(31)	(31)	31	31	-	-	-	-
Deferred acquisition consideration	(34,622)	267	267	(269)	(269)	-	-	-	-
Borrowings	(72,458)	725	725	(725)	(725)	-	-	-	-
		961	961	(963)	(963)	-	-	-	-
Total		952	952	(954)	(954)	-	-	-	-
2008									
Financial assets									
Cash and cash equivalents	391	(4)	(4)	4	4	-	-	-	-
Interest rate swaps	73	(12)	(12)	12	12	-	-	-	-
		(16)	(16)	16	16	-	-	-	-
Financial liabilities									
Deferred acquisition consideration	(40,019)	256	256	(250)	(250)	-	-	-	-
Borrowings	(35,531)	355	355	(355)	(355)	-	-	-	-
		611	611	(605)	(605)	-	-	-	-
Total		587	587	(581)	(581)	-	-	-	-

Interest rate swaps

At 31 May 2009 the fixed rates vary from 3.4-8.1% (2007: 6.2-8.1%) 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 2009.

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 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

GROUP			
2009	LESS THAN 1 YEAR \$000	BETWEEN 1 & 5 YEARS \$000	MORE THAN 5 YEARS \$000
Financial liabilities			
Borrowings	1,926	80,167	15,505
Trade and other payables	30,431	5,404	-
Derivative financial instruments	1,636	2,457	121
Deferred acquisition consideration	1,149	39,000	60
Total	35,142	127,028	15,686
2008			
Financial liabilities			
Borrowings	1,375	41,931	608
Trade and other payables	25,279	1,281	-
Derivative financial instruments	9	-	-
Deferred acquisition consideration	1,646	42,720	45
Total	28,309	85,932	653

COMPANY			
2009	LESS THAN 1 YEAR \$000	BETWEEN 1 & 5 YEARS \$000	MORE THAN 5 YEARS \$000
Financial liabilities			
Borrowings	137	41,445	-
Trade and other payables	1,281	-	-
Derivative financial instruments	-	-	-
Deferred acquisition consideration	-	40,019	-
Total	1,418	81,464	-
2008			
Financial liabilities			
Borrowings	137	41,445	-
Trade and other payables	1,281	-	-
Derivative financial instruments	-	-	-
Deferred acquisition consideration	-	40,019	-
Total	1,418	81,464	-

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

29. 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 years ended 31 May 2009. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, borrowings and term liabilities less cash and cash equivalents. Total capital includes equity attributable to the equity holders of the Parent.

The gearing ratios at 31 May 2009 and 2008 were as follows:

GROUP

	2009 \$000	2008 \$000
Financial liabilities		
Bank borrowings	87,976	37,301
Other borrowings	50	45
Term liabilities	12,065	4,027
Less cash and cash equivalent	(5,047)	(2,681)
Net Debt	95,044	38,692
Equity	55,197	54,155
Reserves	(2,064)	(31)
Total Capital	53,133	54,124
Capital and Net Debt	148,177	92,816
Gearing Ratio	64.1%	41.7%

COMPANY

	2009 \$000	2008 \$000
Financial liabilities		
Bank borrowings	72,452	35,525
Other borrowings	-	(7)
Term liabilities	1,769	-
Less cash and cash equivalent	(921)	(391)
Net Debt	73,300	35,127
Equity	55,197	54,155
Reserves	(1,188)	-
Total Capital	54,009	54,155
Capital and Net Debt	127,309	89,282
Gearing Ratio	57.6%	39.3%

The Put Option liability (\$34.6M) for Bay Audiology is not included in the calculation of Net Debt.

The future settlement of the liability will be funded by debt and/or equity. If funded by 100% debt the gearing ratio for the Group would increase to 70.9% (Company 66.6%).

NOTES TO THE FINANCIAL STATEMENTS

29. 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 2009				
Cash and cash equivalents	-	-	5,047	5,047
Trade and other receivables	-	-	29,586	29,586
	-	-	34,633	34,633
31 May 2008				
Cash and other equivalents	-	-	2,681	2,681
Trade and other receivables	-	-	24,356	24,356
Derivative financial instruments	73	-	-	73
	73	-	27,037	27,110

	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 2009				
Borrowings	-	-	88,026	88,026
Finance leases	-	-	6,262	6,262
Derivative financial instruments	55	1,980	-	2,035
	55	1,980	94,288	96,323
31 May 2008				
Borrowings	-	-	37,346	37,346
Trade and other receivables	-	-	1,276	1,276
Derivative financial instruments	9	-	-	9
	9	-	38,622	38,631

NOTES TO THE FINANCIAL STATEMENTS

29. 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 2009				
Cash and cash equivalents	-	-	921	921
Trade and other receivables	-	-	54,995	54,995
	-	-	55,916	55,916
31 May 2008				
Cash and other equivalents	-	-	391	391
Trade and other receivables	-	-	20,584	20,584
Derivative financial instruments	73	-	-	73
	73	-	20,975	21,048

	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 2009				
Borrowings	-	-	72,417	72,417
Derivative financial instruments	55	1,769	-	1,824
	55	1,769	72,417	74,241
31 May 2008				
Borrowings	-	-	35,525	35,525
	-	-	35,525	35,525

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER

The following directors have given general notice of their interests, or cessation of interests, in the following entities, pursuant to section 140(2) of the Companies Act 1993.

DIRECTOR	ENTITY	INTEREST
T.D. Janes	Accident Compensation Corporation, Board Investment Committee	Member
	LPF Group Limited	Director/Shareholder
	Mighty River Power Limited	Director
	ProCare Health Limited	Director
	Public Trust Office	Director
	Rovert Investments Limited	Director/Shareholder
	Salvus Strategic Investment Limited	Chairman
	Sapphire Currency Fund Limited	Director
	Selenium Corporation Limited	Director/Shareholder
	Trinity Hill Limited and subsidiaries	Director/Shareholder
P.S. Newland	BG Capital Limited	Director
	BG Trustees Limited	Director
	LPF Group Limited	Director
	PAD Holdings Limited	Director
	Sabre Developments Limited	Director
	Tasman Farms Limited	Director
	The Van Dieman's Land Company	Director
A.M. Paterson	Ambulance New Zealand, Oversight Committee	Chairman
	BPAC NZ Limited	Chairman
	Massey University Council	Councillor
	Metrowater Limited	Director
	Nga Pae o Te Maramatanga	Board Member
	Reserve Bank of New Zealand	Deputy Chairman
	University of Auckland, Governing Board, National Research Centre for Growth & Development	Chairman
	Vector Limited	Director
	Xenos Limited	Chairman
S.M. Paterson	Airways Corporation of New Zealand Limited	Deputy Chairman
	Airways Equipment Limited	Director
	Airways International Limited	Director
	Goodman (NZ) Limited	Director
	Goodman Property Aggregated Limited	Director
	Ngawha Generation Limited	Director
	NZ Ecolabelling Trust	Trustee
	Ports of Auckland Limited	Director
	Scripts Limited	Director
	Theta Systems Limited	Director
A.W. Clarke	Auckland City Surgical Services Limited	Director
	Edtech Limited	Shareholder
P.L. Hutson*	Audiology South Limited	Director/Shareholder
	Bay Audiology Limited and subsidiaries	Director/Shareholder
	Bay International Limited	Director/Shareholder
	Healthcare Industry Limited	Director/Shareholder
	Lakeside Specialist Centre Limited	Director/Shareholder

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

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER CONTINUED

DIRECTOR	ENTITY	INTEREST
D. Chan	A1 Flower Wholesalers Limited	Director/Shareholder
	Academic Colleges of New Zealand Limited	Director/Shareholder
	Agresearch Limited and subsidiary	Director
	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
	Biopacific 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	Director/Shareholder
	Green Cut Limited	Director/Shareholder
	Griff Trading Limited	Director/Shareholder
	Lady White Snake Film Limited	Director/Shareholder
	Norton College 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
	Sunderland School Property Limited	Director/Shareholder
	Sunwave Enterprises Limited	Director/Shareholder
	Tahere Callas Limited and subsidiary	Director/Shareholder
	Talaforf Investments Limited and subsidiary	Director/Shareholder
	The Academic Coaching School Limited	Director/Shareholder
	Turners Flower Exports NZ Limited	Director/Shareholder

ADDITIONAL STATUTORY INFORMATION

DIRECTORS' SHARE DEALINGS

During the year the director named below disclosed the following acquisition of relevant interests in ordinary shares in the Company.

	NUMBER OF SHARES	CONSIDERATION PER SHARE	DATE OF ACQUISITION
A.W. Clarke	149,336	\$4.52	1-Dec-08

DIRECTORS' SHAREHOLDINGS

As at 31 May 2009

	BENEFICIAL INTEREST		NON-BENEFICIAL INTEREST	
	2009	2008	2009	2008
D. Chan	-	-	-	-
A.W. Clarke	352,474	203,138	-	-
P.L. Hutson	-	-	4,574,893	-
T.D. Janes	-	-	-	-
P.S. Newland	15,000	15,000	-	-
A.M. Paterson	-	-	-	-
S.M. Paterson	-	-	-	-

REMUNERATION OF DIRECTORS

Remuneration and other benefits.

	2009 \$	2008 \$
D. Chan	16,458	-
A.W. Clarke	632,183	551,393
G.D. Edmond	23,042	42,000
P.L. Hutson	297,550	-
T.D. Janes	79,500	69,500
P.S. Newland	64,500	54,500
A.M. Paterson	79,500	94,500
S.M. Paterson	44,500	47,000

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	
	2009	2008	2009	2008
\$100,001 - \$110,000	10	4	-	-
\$110,001 - \$120,000	12	9	-	-
\$120,001 - \$130,000	11	5	-	-
\$130,001 - \$140,000	3	3	-	1
\$140,001 - \$150,000	5	1	-	-
\$150,001 - \$160,000	3	3	1	-
\$160,001 - \$170,000	3	2	-	-
\$170,001 - \$180,000	3	-	-	-
\$180,001 - \$190,000	-	1	-	-
\$190,001 - \$200,000	3	-	-	-
\$201,000 - \$210,000	2	-	-	-
\$210,001 - \$220,000	-	1	-	-
\$220,001 - \$230,000	-	-	-	-
\$230,001 - \$240,000	-	-	-	-
\$240,001 - \$250,000	1	-	-	-
\$250,001 and over	8	7	2	2

During the year the Company entered into new employment agreements with Mr A. W. Clarke, managing director, and Mr R. G. Keys, chief financial officer. Mr Clarke's agreement provides for a salary of \$473,000 and an at-risk component of up to \$96,000. Mr Keys' agreement provides for a salary of \$356,000 and an at-risk component of up to \$82,000.

The level of remuneration payable under both agreements rendered each of them 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 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		
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
Bay Audiology Limited	A W Clarke	R G Keys	P L Hutson	A Hutson	S Wright
Bay Audio Pty Limited	A W Clarke	R G Keys	P L Hutson	A J Campbell	
Bay Audiology (Hong Kong) Limited	A W Clarke	R G Keys	P L Hutson	R Gilligan	
Bay Audiology South Limited	A W Clarke	R G Keys	P L Hutson	S Melville	A J Rowcroft
Bay Audiology (Singapore) PTE Limited	A W Clarke	R G Keys	P L Hutson	R Gilligan	
Bay International Limited	A W Clarke	R G Keys	P L Hutson	A Hutson	
Dental Partners Pty Limited	A W Clarke	R G Keys	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			
Orthotic Centre (Midlands) Limited		R G Keys	C Balasoglou	M Batters	
Orthotic Centre (Wellington) Limited		R G Keys	C Balasoglou		
Wellington Pathology Limited	A W Clarke	R G Keys			

ADDITIONAL STATUTORY INFORMATION

SHAREHOLDER INFORMATION

Twenty largest security holders as at 12 August 2009

	Ordinary shares	% holding
Healthcare Industry Limited	4,574,893	19.7%
Crescent Capital Partners Limited	4,534,998	19.5%
TEA Custodians Limited	2,331,235	10.0%
Custodial Services Limited	987,359	4.2%
National Nominees New Zealand Limited	726,683	3.1%
Craig John Thompson	650,000	2.8%
Alan William Clarke	352,474	1.5%
Accident Compensation Corporation	344,801	1.5%
Superlife Trust Limited	325,742	1.4%
S.Boey, Y. Chiam, K. Chiam & S.Chiam	321,264	1.4%
Forsyth Barr Custodians Limited	318,699	1.4%
Clinton Adam Teague	289,106	1.2%
Custodial Services Limited	272,607	1.2%
HSBC Nominees (New Zealand) Limited	258,762	1.1%
Rotorua Trust Perpetual Capital Fund Limited	226,625	1.0%
Richard George Keys	183,351	0.8%
Grant Michael Novak & Jacqueline Francesca Vervoort & NKS Trustees Limited	135,000	0.6%
Forsyth Barr Custodians Limited	118,148	0.5%
Joanne Beryl Mortimore & Richard Anthony Hadfield	113,300	0.5%
Guardian Trust Investment Nominees Limited	104,000	0.4%
TOTAL	17,169,047	73.9%

SPREAD OF SECURITY HOLDERS

As at 12 August 2009

Size of shareholding	Number of holders	Total shares held	% of shares
1 - 4,999	1,486	1,913,244	8.2%
5,000 - 9,999	167	1,011,227	4.4%
10,000 - 49,999	122	1,965,276	8.5%
50,000 - 99,999	14	973,814	4.2%
100,000 - 499,999	16	3,563,879	15.3%
500,000 - 999,999	3	2,364,042	10.2%
1,000,000 or more	3	11,441,126	49.2%
	1,808	23,232,608	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 6 August 2009 are:

	Number of shares
Healthcare Industry Limited ¹	4,574,893
Peter Lionel Hutson, Anya Lee Hutson and Lewis Grant ²	4,574,893
Alison McRae Wright, Scott Eric Wright and Kevin David Pitfield ²	4,574,893
ASB Nominees Limited ²	4,574,893
Hearing Holdings Limited ¹ (formerly Crescent Capital Partners Limited)	4,534,998

¹ All shares held beneficially.

² Comprising non-beneficial interests in 4,574,893 shares held by body corporate Healthcare Industry Limited.

GLOSSARY

CORE EBITDA	Each sector's Earnings before Interest, Tax, Depreciation and Amortisation of Goodwill, including an allocation of Abano corporate costs
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
Core	The ongoing contribution from operations that will re-occur in future periods
ROIC	Return on Invested Capital at EBITDA
EPS	Earnings Per Share
WACC	Weighted Average Cost of Capital
DHB	District Health Board
MOH	Ministry of Health
ACC	Accident Compensation Corporation
NZX	New Zealand Exchange
Noncore/unusuals	Any one off gain or loss arising from business activities or assets
NZD	New Zealand Dollar
AUD	Australian Dollar

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