

Abano Healthcare Group Limited

Appraisal Report

In Respect of:

- **the Executive Long Term Incentive Scheme**
- **the Managing Director Short Term Incentive Scheme**

November 2008

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1. Introduction

1.1 Background

Abano Healthcare Group Limited (**Abano** or the **Company**) is a specialist investor in the Australasian healthcare and medical services market. It operates in the audiology, dental, diagnostics and rehabilitation sectors.

Abano's shares are listed on the main board equity security market (**NZSX**) operated by NZX Limited (**NZX**) with a market capitalisation of \$101 million as at 31 October 2008 and equity of \$55 million as at 31 May 2008.

1.2 Executive Long Term Incentive Scheme

Abano proposes to implement a new two-part equity-based long term incentive scheme for Alan Clarke, the Company's managing director (**MD**) and Richard Keys, the Company's chief financial officer (**CFO**), (the **Executive Long Term Incentive Scheme**), subject to shareholder approval.

The Executive Long Term Incentive Scheme has been developed by the Abano Board. It consists of two components:

- the Incentive Scheme
- the Outperformance Scheme.

The Executive Long Term Incentive Scheme covers a period of three years. It will effectively commence on 1 June 2008 and end on 31 May 2011.

Incentive Scheme

Under the Incentive Scheme, if Abano's earnings per share (**EPS**) equals or exceeds a performance target of a 15% compound annual growth rate (**CAGR**) over the three year period:

- Mr Clarke will be entitled to receive Abano ordinary shares equating to a value of \$450,000 at their issue date (equating to \$150,000 per annum for three years)
- Mr Keys will be entitled to receive Abano ordinary shares equating to a value of \$162,000 at their issue date (equating to \$54,000 per annum for three years).

Abano will provide financial assistance to Mr Clarke and Mr Keys to acquire the Incentive Scheme shares by making loans to the executives. The Company will pay Mr Clarke a bonus of up to \$450,000 and Mr Keys a bonus of up to \$162,000 at the end of the Incentive Scheme which may be applied towards the repayment of the loans. All taxes (including PAYE), employee and the equivalent amount of employer Kiwisaver contributions (if any) will be deducted from the bonuses. The net amount of the bonuses will be applied to repay the loans provided by Abano. The residual loan balances must be met personally by Mr Clarke and Mr Keys.

Outperformance Scheme

Under the Outperformance Scheme, if Abano's EPS equals or exceeds a performance target of a CAGR of 22.5% over the three year period:

- Mr Clarke will be entitled to receive further Abano ordinary shares equating to a value of \$225,000 at their issue date (equating to \$75,000 per annum for three years)
- Mr Keys will be entitled to receive further Abano ordinary shares equating to a value of \$81,000 at their issue date (equating to \$27,000 per annum for three years).

Abano will provide financial assistance to Mr Clarke and Mr Keys to acquire these shares by making loans to the executives. However, the Company will not pay Mr Clarke or Mr Keys bonuses at the end of the Outperformance Scheme. The loans will need to be repaid in full by Mr Clarke and Mr Keys.

Details of the proposed Executive Long Term Incentive Scheme are set out in section 2.3.

1.3 MD Short Term Incentive Scheme

A portion of Mr Clarke's remuneration package consists of a variable short term bonus paid annually based on performance. Abano proposes to implement a short term incentive scheme whereby Mr Clarke may be issued shares in lieu of the cash bonus (the **MD Short Term Incentive Scheme**), subject to shareholder approval.

Details of the MD Short Term Incentive Scheme are set out in section 3.3.

1.4 Regulatory Requirements

Listing Rule 7.3.1 of the NZSX Listing Rules states that no issue of equity securities shall be made by an Issuer unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

Furthermore, Listing Rule 7.6.6 stipulates that an Issuer may only provide financial assistance for the purpose of, or in connection with, the acquisition of the equity securities if the precise terms and conditions of the proposal to give financial assistance have been approved by an ordinary resolution of the Issuer.

Listing Rule 7.6.6A provides that a proposal authorised by resolutions passed pursuant to Listing Rule 7.6.6 shall be completed within 36 months after the passing of those resolutions. Abano has been granted a waiver from Listing Rule 7.6.6A from NZX on the condition that the latest date Abano may deliver a notice of intention to exercise the call option is 30 November 2011 and that the latest date an executive may deliver a notice of exercise in respect of the put option is 28 December 2011. The call and put options are discussed in section 2.3 on page 8.

Listing Rule 6.2.2(b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.3.1 and where more than 50% of the securities to be issued will be acquired by directors of the Issuer.

Listing Rule 6.2.2(c) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.6.6 and where more than 50% of the total financial assistance given will be provided to directors of the Issuer.

1.5 Annual Meeting of Shareholders

Abano is holding its annual meeting of shareholders on 25 November 2008 whereby the Abano shareholders not associated with Mr Clarke or Mr Keys (the **Non-associated Shareholders**) will vote on an ordinary resolution in respect of the Executive Long Term Incentive Scheme (resolution 6) and an ordinary resolution in respect of the MD Short Term Incentive Scheme (resolution 5).

Shareholders will also be asked to vote on resolutions in respect of:

- the reappointment of the Company's auditors (resolution 1)
- the re-election of Philip Newland as a director (resolution 2)
- the re-election of Trevor Janes as a director (resolution 3)
- the election of Peter Hutson as a director (resolution 4).

1.6 Purpose of the Report

The directors of Abano not associated with Mr Clarke and Mr Keys (the **Independent Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Appraisal Report on:

- the fairness of the Executive Long Term Incentive Scheme in accordance with Listing Rules 6.2.2(b) and 6.2.2(c)
- the fairness of the MD Short Term Incentive Scheme in accordance with Listing Rule 6.2.2(b).

Simmons Corporate Finance was approved by NZX on 14 August 2008 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Appraisal Report to the Independent Directors for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on whether to vote for or against the resolutions in respect of the Executive Long Term Incentive Scheme and the MD Short Term Incentive Scheme.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness of the Executive Long Term Incentive Scheme or the MD Short Term Incentive Scheme in relation to each shareholder. This report on the fairness of the Executive Long Term Incentive Scheme and the MD Short Term Incentive Scheme is therefore necessarily general in nature.

The Appraisal Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Fairness of the Executive Long Term Incentive Scheme

2.1 Basis of Evaluation

Listing Rule 1.2.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the Executive Long Term Incentive Scheme are fair to the Non-associated Shareholders.

There is no legal definition of the term *fair* in New Zealand in either the NZSX Listing Rules or in any statute dealing with securities or commercial law.

In our opinion, the Executive Long Term Incentive Scheme will be fair to the Non-associated Shareholders if:

- the shares issued to Mr Clarke and Mr Keys under the Executive Long Term Incentive Scheme represent a fair level of remuneration to Mr Clarke and Mr Keys
- the terms and conditions of the Executive Long Term Incentive Scheme are fair.

We have evaluated the fairness of the Executive Long Term Incentive Scheme by reference to:

- the rationale for the scheme
- the value of the scheme to Mr Clarke and Mr Keys
- the scheme's terms and conditions
- the impact of the scheme on shareholding levels
- accounting issues arising
- taxation issues arising.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Evaluation of the Fairness of the Executive Long Term Incentive Scheme

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Executive Long Term Incentive Scheme are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.3 to 2.12. In summary, the key factors leading to our opinion are:

- the rationale for the Executive Long Term Incentive Scheme is sound
- the overall remuneration levels for Mr Clarke and Mr Keys are reasonable
- the performance measure of EPS is appropriate
- the EPS performance targets of 15% CAGR for the Incentive Scheme and 22.5% CAGR for the Outperformance Scheme are reasonable
- the length of the scheme of three years is of a suitably long duration
- the dilutionary impact of the Executive Long Term Incentive Scheme on Non-associated Shareholders is minor at approximately 0.9%
- Mr Clarke and Mr Keys will only be assured of deriving value from the Executive Long Term Incentive Scheme if the performance targets are met. In the event that the performance targets are not met, then the Company may call back the shares at their original issue price and Mr Clarke and Mr Keys will derive no value from the scheme
- the performance targets ensure that from an accounting perspective, the Executive Long Term Incentive Scheme is earnings accretive
- the Executive Long Term Incentive Scheme is tax effective for both Abano and Mr Clarke and Mr Keys.

2.3 Executive Long Term Incentive Scheme

Background

Mr Clarke commenced employment with Abano in the position of Chief Executive Officer in April 2000. He was appointed MD in October 2001.

Mr Keys commenced employment with Abano in the position of Business Development Manager in February 2002 and was promoted to CFO in August 2003.

Mr Clarke and Mr Keys both receive a fixed base salary and a variable short term bonus paid annually based on performance. In addition, they are entitled to long term incentive remuneration in the form of an equity participation scheme.

Previous Scheme

On 23 September 2005, the Company's shareholders approved an Executive Share Scheme (the **Previous Scheme**). The Previous Scheme provided for three executives - Mr Clarke, Mr Keys and Andy Tapper (then General Manager Business Development) - to be issued shares for which the Company provided interest free loans.

A total of 308,974 shares were issued to the three executives on 23 March 2006 at \$1.56 per share. Loans totalling \$482,000 were provided to the three executives on that date to acquire the shares.

The Previous Scheme covers a term of three years up to 23 March 2009 and provides three separate performance targets to be achieved during each of those years based on the Company's core earnings before interest, tax, depreciation and amortisation as a percentage of invested capital. The executives do not become entitled to keep the shares until the performance criteria are met and the executives remain in employment with the Company for the term of the scheme.

The Company holds call options over the 308,974 shares which can be exercised over all or part of the shares if the performance criteria are not met. If a call option is exercised by the Company, the proceeds will be applied to the outstanding loan owed by the executives for the initial purchase of the shares.

The executives hold put options which can be exercised at the end of the scheme at a price of \$1.56 per share. The proceeds from the exercise of the put options are to be used to repay the remaining "uncalled" shares. If an executive exercises the put option, they become entitled to a performance bonus equal to the amount of outstanding loan at the end of the scheme.

Proposed Executive Long Term Incentive Scheme

The Executive Long Term Incentive Scheme put forward for shareholder approval on 25 November 2008 consists of two components:

- the Incentive Scheme
- the Outperformance Scheme.

Incentive Scheme

If Abano's EPS equals or exceeds a performance target of 15% CAGR over each of the three years of the Incentive Scheme, the Incentive Scheme will result in:

- Mr Clarke being entitled to receive shares equating to a value of \$450,000 at their issue date (based on \$150,000 per annum for three years)
- Mr Keys being entitled to receive shares equating to a value of \$162,000 at their issue date (based on \$54,000 per annum for three years).

The share price used to calculate the number of shares to be issued will be based on the 20 business day volume weighted average share price (**VWAP**) up to the issue date, which is expected to be shortly after the annual meeting of shareholders.

For illustrative purposes, if the shares were issued at the 20 business day VWAP to 31 October 2008 of \$4.50, Abano would issue 100,000 shares to Mr Clarke and 36,000 shares to Mr Keys.

Abano will provide financial assistance to Mr Clarke and Mr Keys to acquire the Incentive Scheme shares by making loans to the executives. The Company will pay Mr Clarke and Mr Keys bonuses at the end of the Incentive Scheme which may be applied towards the repayment of the loans.

Outperformance Scheme

In addition to the Incentive Scheme, the Abano Board proposes to establish an Outperformance Scheme based on a higher performance target of 22.5% CAGR in EPS.

If Abano's EPS equals or exceeds a performance target of 22.5% CAGR over each of the three years of the Outperformance Scheme, the Outperformance Scheme will result in:

- Mr Clarke being entitled to receive further shares equating to a value of \$225,000 at their issue date (based on \$75,000 per annum for three years)
- Mr Keys being entitled to receive further shares equating to a value of \$81,000 at their issue date (based on \$27,000 per annum for three years).

The share price used to calculate the number of shares to be issued will be based on the 20 business day VWAP up to the issue date, which is expected to be shortly after the annual meeting of shareholders.

For illustrative purposes, if the shares were issued at \$4.50, Abano would issue 50,000 shares to Mr Clarke and 18,000 shares to Mr Keys.

Abano will provide financial assistance to Mr Clarke and Mr Keys to acquire the Outperformance Scheme shares by making loans to the executives. However, as opposed to the Incentive Scheme, the Company will not pay Mr Clarke or Mr Keys bonuses at the end of the Outperformance Scheme. The loans will need to be repaid in full by Mr Clarke and Mr Keys.

Scheme Duration

The Executive Long Term Incentive Scheme is for a period of three years. It will effectively commence on 1 June 2008 and end on 31 May 2011 (notwithstanding that the shares will not be issued until 25 November 2008 at the earliest).

Performance Measure and Targets

The performance measure for the Executive Long Term Incentive Scheme will be EPS.

Increases in EPS will be measured on a year by year basis to align with Abano's audited financial statements. The assessment of whether the performance targets are met will begin on 31 May 2009, with Abano's EPS for the year ended 31 May 2008 of \$0.34 being the base against which performance is measured.

The performance target for the Incentive Scheme will be 15% CAGR in EPS.

The performance target for the Outperformance Scheme will be 22.5% CAGR in EPS.

Issue of Shares

Upon shareholder approval, the Executive Long Term Incentive Scheme shares will be issued to Mr Clarke and Mr Keys.

Mr Clarke and Mr Keys will be able to exercise all voting rights attached to the shares immediately upon their issue.

Call Options

Mr Clarke and Mr Keys will each grant to the Company call options over the Incentive Scheme shares and over the Outperformance Scheme shares. The call options enable the Company to buy back the shares in the event that the EPS growth performance targets are not met in a particular year or if Mr Clarke or Mr Keys cease employment with Abano.

Abano can deliver a notice of intention to exercise the call options in respect of one third of the Incentive Scheme shares or the Outperformance Scheme shares within 60 days following the end of the Company's financial year if the respective performance target has not been met for that financial year, or such later date decided at the Abano Board's discretion, provided that date is prior to 30 November 2011.

The effect of the call options is that Abano can buy back one third of the Incentive Scheme shares if, in any year, the 15% CAGR in EPS is not achieved and/or one third of the Outperformance Scheme shares if, in any year, the 22.5% CAGR in EPS is not achieved. However, Abano is not compelled to exercise the call options in such circumstances. The exercise of the call options is at the discretion of the Abano Board.

If the call options are exercised in respect of any particular year, the subject shares will be bought back by the Company at the end of the Executive Long Term Incentive Scheme (which must be before 30 November 2011) at their original issue price.

Put Options

The Company will grant to Mr Clarke and Mr Keys put options over their respective Incentive Scheme shares and over their respective Outperformance Scheme shares. The put options enable Mr Clarke and/or Mr Keys to sell all (but not some) of the shares back to the Company.

The put options can only be exercised within 20 days of the last day that the Company can exercise its call options.

If the put options are exercised, the shares will be sold back to the Company at their original issue price.

No Disposals

Mr Clarke and Mr Keys will not be able to dispose any of the shares prior to the last day that the Company can exercise its call options.

Financial Assistance

Abano will provide loans of \$450,000 to Mr Clarke and \$162,000 to Mr Keys to enable the purchase of the Incentive Scheme shares.

The Company will also provide loans of \$225,000 to Mr Clarke and \$81,000 to Mr Keys to enable the purchase of the Outperformance Scheme shares.

The key terms of the loans are:

- the loans will be interest free
- the loans will be secured by way of a mortgage over the Executive Long Term Incentive Scheme shares
- the liability of Mr Clarke and Mr Keys in respect of the loans will be limited to the Executive Long Term Incentive Scheme shares.

If either the call options or the put options are exercised, Mr Clarke and Mr Keys must apply the proceeds from the sale of the shares to repay the loans.

Bonuses

If the Incentive Scheme performance target for the three years is met, Mr Clarke and Mr Keys will each receive a cash bonus in (or around) August 2011 as follows:

- a bonus of \$450,000 (less PAYE and any other deductions) will be payable to Mr Clarke
- a bonus of \$162,000 (less PAYE and any other deductions) will be payable to Mr Keys.

If the call options over the Incentive Scheme shares are exercised by the Company (because the Incentive Scheme performance target is not met in any particular year), then the amount of the cash bonuses will be reduced proportionately. For example, if a notice of intention to exercise the call options is delivered in respect of one financial year, then the cash bonuses (before PAYE and other deductions) will reduce to \$300,000 for Mr Clarke and \$108,000 for Mr Keys.

All taxes (including PAYE), employee and the equivalent amount of employer Kiwisaver contributions (if any) will be deducted from the bonuses. Any residual loan balances must be met personally by Mr Clarke and Mr Keys.

Under the Outperformance Scheme, no bonuses will be paid to Mr Clarke and Mr Keys and therefore there is no cash cost to Abano in respect of the Outperformance Scheme. Because no bonuses are paid under the Outperformance Scheme, Mr Clarke and Mr Keys must personally pay back the Outperformance Scheme loans. Accordingly, there is a possibility that Mr Clarke and Mr Keys may elect to put the Outperformance Scheme shares back to Abano at their issue price and the proceeds from the sale of the shares will be used to repay the loans.

Dividends

The Executive Long Term Incentive Scheme shares will carry the same right to dividends or distributions as all other shares on issue, but any dividends or distributions in respect of the Executive Long Term Incentive Scheme shares will be retained by the Company until the loans are repaid.

Mr Clarke and Mr Keys will not be entitled to receive or retain any dividends or distributions in respect of the Executive Long Term Incentive Scheme shares if those shares are bought back by the Company as a result of the exercise of a call option or a put option.

Capital Reconstructions

All Executive Long Term Incentive Scheme shares have the same rights as any other Abano ordinary shares in respect of any capital reconstructions such as bonus issues or rights issues.

Takeovers

If a takeover affecting more than 50% of the Company's shares is recommended for acceptance or approval by the Abano Board, or if not recommended, becomes unconditional and the bidder obtains beneficial ownership of more than 50% of the Company's shares, then the Abano Board shall amend the terms of the Executive Long Term Incentive Scheme in such manner as the Abano Board, in its discretion, considers appropriate in order to enable Mr Clarke and Mr Keys to fully participate in the takeover in respect of their Executive Long Term Incentive Scheme shares.

Tax Indemnity

The Company will indemnify Mr Clarke and Mr Keys against any tax liability that they incur which results from the acquisition by Abano of the Executive Long Term Incentive Scheme shares under the call options or the put options being treated as a dividend for tax purposes.

Summary of Executive Long Term Incentive Scheme

The table below summarises:

- the indicative number of shares to be issued to Mr Clarke and Mr Keys
- the consideration paid for the shares
- the loans from Abano to Mr Clarke and Mr Keys
- the bonuses that will be paid to Mr Clarke and Mr Keys if the Incentive Scheme performance targets are met
- the amount of the loans that will need to be repaid by Mr Clarke and Mr Keys personally.

Executive Long Term Incentive Scheme Shares Issued and Financial Assistance			
	Incentive Scheme	Outperformance Scheme	Total
Mr Clarke			
Number of shares (indicative) ¹	100,000	50,000	150,000
	\$000	\$000	\$000
Consideration for shares	450	225	675
Loans to Mr Clarke	450	225	675
Bonus to Mr Clarke ²			
- Before PAYE	450	-	450
- After PAYE ³	274	-	274
Loan repayment less net bonus payable to Mr Clarke	176	225	401
Mr Keys			
Number of shares (indicative) ¹	36,000	18,000	54,000
	\$000	\$000	\$000
Consideration for shares	162	81	243
Loans to Mr Keys	162	81	243
Bonus to Mr Keys ²			
- Before PAYE	162	-	162
- After PAYE ³	99	-	99
Loan repayment less net bonus payable to Mr Keys	63	81	144
¹ Based on 20 business day VWAP of \$4.50 up to 31 October 2008 ² Assuming Incentive Scheme performance targets are met ³ Assuming marginal tax rate of 39%			

2.4 Rationale for the Executive Long Term Incentive Scheme

In general terms, companies provide equity-based long term executive incentive remuneration to tie executives' remuneration to the annual and long term financial performance of the company and to align the interests of the executives with shareholders. Key benefits to the company include:

- equity-based long term executive incentive remuneration helps to attract and retain top executives
- it enables executives to build equity ownership in the company
- executives' interests are more closely aligned with shareholders' interests.

Mr Clarke's and Mr Keys' remuneration packages are structured into three components:

- a base salary
- an annual short term incentive in the form of a cash bonus opportunity
- a long term equity-based incentive.

The most recent long term equity-based incentive scheme for Mr Clarke and Mr Keys (the Previous Scheme described in section 2.3) was approved by the Company's shareholders on 23 September 2005.

The proposed Executive Long Term Incentive Scheme is intended to provide a continuation of the long term equity-based incentive that forms part of Mr Clarke's and Mr Keys' remuneration packages. In developing the current scheme, the Abano Board's intent has been to retain as many of the key characteristics of the Previous Scheme, while taking into account advice it has received from its remuneration and legal advisers on the design of the scheme.

There has been growing criticism in New Zealand and abroad in respect of the equity-based incentive remuneration. The criticisms centre around:

- the lack of performance hurdles and/or inadequate explanation of performance hurdles
- the length of term for the equity-based incentive remuneration being too short and hence not aligning with shareholder interests
- already generous remuneration for executives.

In our view, the rationale for the Executive Long Term Incentive Scheme as a component of Mr Clarke's and Mr Keys' remuneration packages is sound:

- it provides a long term incentive - spanning over three years, thus aiding in the retention of Mr Clarke and Mr Keys
- it closely aligns the interests of Mr Clarke and Mr Keys with those of the Company's shareholders through the use of annual compounding earnings growth performance targets.

Our view that the rationale is sound is predicated on the basis that the Abano Board will exercise the call options if the performance targets are not met.

2.5 Mr Clarke and Mr Keys' Remuneration Packages

Although the focus of our evaluation is primarily on the Executive Long Term Incentive Scheme, consideration needs to be given to the overall levels of remuneration for Mr Clarke and Mr Keys.

HayGroup Remuneration Advice

The Abano Board sought advice from management consulting firm HayGroup Limited (**HayGroup**) in 2007 and 2008 on appropriate remuneration levels for Mr Clarke and Mr Keys.

In its 19 March 2007 report, HayGroup recommended the following basis for setting remuneration levels for Mr Clarke and Mr Keys:

- fixed remuneration – based on the market median remuneration plus 10% (where market remuneration is based on the HayGroup market remuneration survey and specifically in respect of the industrial and services sector)
- annual short term incentive – between the market median and upper quartile levels
- long term incentive – not less than the market median level.

In its 31 March 2008 report, HayGroup recommended that Mr Clarke and Mr Keys' remuneration be benchmarked against a trans-Tasman market approach as the Company's focus was becoming increasingly Australasian rather than purely New Zealand based. HayGroup provided the following market data:

Market Remuneration Data				
	MD		CFO	
	New Zealand \$000	Trans-Tasman \$000	New Zealand \$000	Trans-Tasman \$000
Fixed remuneration (median + 10%)	473	528	356	411
Annual short term incentive (median)	128	179	82	111
Long term incentive (median)	118	153	54	82
Total	<u>719</u>	<u>860</u>	<u>492</u>	<u>604</u>

Source: HayGroup 31 March 2008 report to Abano

After considering the HayGroup advice, the Abano Board decided to base Mr Clarke and Mr Keys' 2008 remuneration on the New Zealand market data.

The Abano Board offered the opportunity to Mr Clarke and Mr Keys to transfer a portion of their annual short term incentive component to their long term incentive component. Mr Clarke elected to transfer 25% (\$32,000) from short term to long term, resulting in an annual short term incentive component of \$96,000 and a long term incentive component of \$150,000.

Current Remuneration Levels

The potential range of remuneration for Mr Clarke and Mr Keys under their current employment agreements, assuming the Executive Long Term Incentive Scheme is approved, is set out below.

Range of Annual Remuneration for Mr Clarke and Mr Keys				
	Mr Clarke		Mr Keys	
	Low \$000	High \$000	Low \$000	High \$000
Fixed remuneration	473	473	356	356
Annual short term incentive	0 ¹	96 ²	0 ¹	82 ²
Executive Long Term Incentive Scheme – annual bonus	0 ³	150 ⁴	0 ³	54 ⁴
Executive Long Term Incentive Scheme – financial assistance	0 ³	23 ⁵	0 ³	8 ⁵
	<u>473</u>	<u>742</u>	<u>356</u>	<u>500</u>

¹ Assumes no annual bonus is earned / paid
² Assumes 100% of the annual bonus is earned/paid
³ Assumes neither performance target is met
⁴ Assumes Incentive Scheme performance target is met
⁵ Assumes Outperformance Scheme performance target is met. Refer to section 2.8 for calculation

The bonuses under the Executive Long Term Incentive Scheme will not be paid annually. Any bonuses will be paid at the end of the scheme.

While the remuneration value of the Executive Long Term Incentive Scheme will be between nil and \$173,000 per annum for Mr Clarke and between nil and \$62,000 per annum for Mr Keys, the actual benefit received by Mr Clarke and Mr Keys may be anywhere from nil (if no performance targets are met) to potentially considerably more than \$173,000 and \$62,000 per annum respectively (depending on the number of shares issued and the actual price of Abano's shares at the end of the Executive Long Term Incentive Scheme). Mr Clarke and Mr Keys will participate in any increase in the market value of Abano shares to the same extent as the Non-associated Shareholders who hold Abano shares over the same time span.

Conclusion

We are of the view that the overall levels of remuneration for Mr Clarke and Mr Keys are reasonable.

2.6 Performance Measure

The Executive Long Term Incentive Scheme is designed so that Mr Clarke and Mr Keys will retain the Incentive Scheme shares if Abano's EPS grows by at least 15% CAGR over the three years from 1 June 2008 to 31 May 2011 and retain the Outperformance Scheme shares if Abano's EPS grows by at least 22.5% CAGR over the three year period.

Subject to our comments below, Mr Clarke and Mr Keys will not receive any benefit from the Executive Long Term Incentive Scheme unless the EPS growth targets are met. If the targets are not achieved, the Company will be able to exercise its call options and buy back the Incentive Scheme shares and/or the Outperformance Scheme shares at the original issue price.

We note however that the exercise of the call options is at the discretion of the Abano Board so it is theoretically possible that the EPS growth targets may not be met but the Board elects not to exercise the call options.

The Abano Board's objective is to align the long term incentive remuneration with the Company's performance. There are a variety of measures to assess a company's financial performance. EPS growth is one such measure. Others include total shareholder return (**TSR**), return on equity and return on capital employed.

TSR focuses on returns whereas EPS reflects growth more than returns (because it does not fully take into account the cost of capital employed to generate those earnings).

We have reviewed a range of executive remuneration packages for listed companies in New Zealand and Australia, as well as research on long term incentive plans in overseas companies. The majority of companies use either TSR or EPS (or a combination thereof) to set performance hurdles or set exercise prices for options. In doing so, companies use either relative performance hurdles (eg TSR benchmarked against the TSR of a basket of comparable companies or growth in EPS benchmarked against price indices such as the Consumer Price Index or Retail Price Index) or absolute performance hurdles (eg TSR and/or EPS growth based on predefined CAGR levels). In some circumstances where companies use more than one performance hurdle, they combine a relative performance hurdle (eg TSR) with an absolute performance hurdle (eg EPS).

The Abano Board has decided that EPS is a more appropriate performance measure than TSR as it is used by a number of companies and it is a transparent measurement base as it is disclosed in the Company's audited financial statements.

A criticism that is sometimes put forward against EPS as a performance measure is that it can be influenced from year to year by a variety of means, including:

- asset revaluations
- creation or reduction of accruals or reserves
- revenue and/or expense recognition
- capitalisation practices
- changes in accounting policies.

The Executive Long Term Incentive Scheme applies only to Mr Clarke and Mr Keys and not to any other members of Abano's Board. Given that any of the means noted above would need to be approved by both the Abano Board and the Company's auditors, we consider it unlikely that Mr Clarke and Mr Keys would be able to unduly influence reported earnings to a significant extent over the period of the Executive Long Term Incentive Scheme.

We note that while EPS growth and TSR should have a high degree of correlation over time, it is possible that they may not be closely correlated over shorter periods. This could be due to a number of reasons including:

- the extent to which future earnings growth is already priced into the share price
- supply and demand factors in relation to the shares
- the extent to which the market continues to factor into the share price future earnings growth
- the extent to which the market reassesses the risk profile of the company arising from the earnings growth (eg if the growth arises primarily from acquisitions) and prices this risk in the share price.

Accordingly, there is no guarantee that the achievement of a certain level of EPS growth will translate into a corresponding level of TSR.

On balance, we consider the use of growth in EPS to be an appropriate performance measure for the Executive Long Term Incentive Scheme. While more sophisticated performance measures could be implemented (eg a combination of TRS and EPS growth benchmarked on a relative basis), we believe the benefits of the simplicity and transparency of using EPS growth more than outweigh any benefits that may be gained from a more complex multi-measure approach.

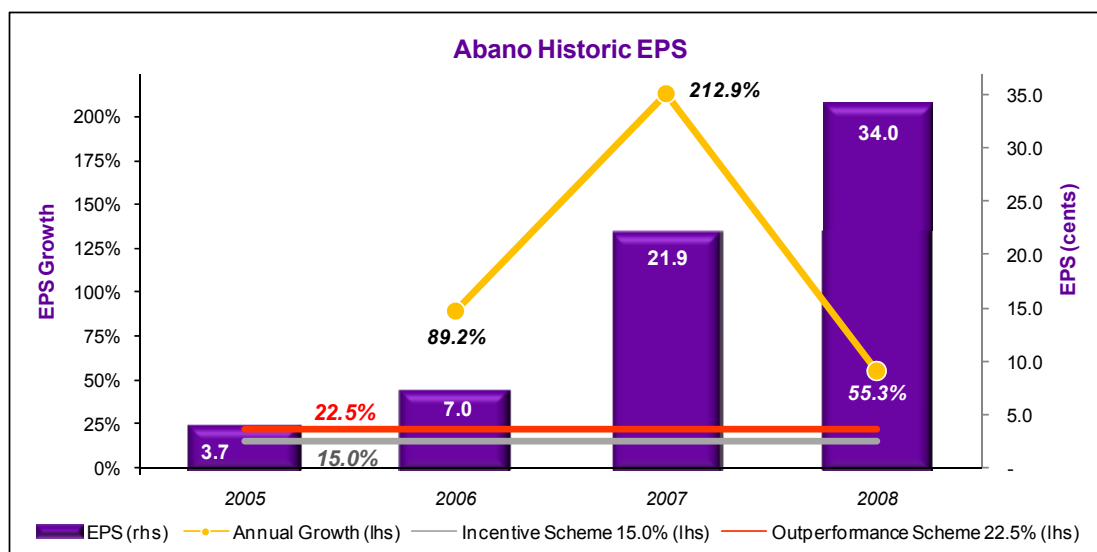
2.7 Performance Targets

The performance targets for the Executive Long Term Incentive Scheme are:

- Incentive Scheme – EPS CAGR of at least 15%
- Outperformance Scheme – EPS CAGR of at least 22.5% (ie 50% higher than the Incentive Scheme performance target).

Abano Historic EPS Growth

The graph below sets out Abano's EPS for the past four years to 31 May 2008. EPS for 2006 excludes the capital gain on sale from the divestment of ElderCare New Zealand Limited.



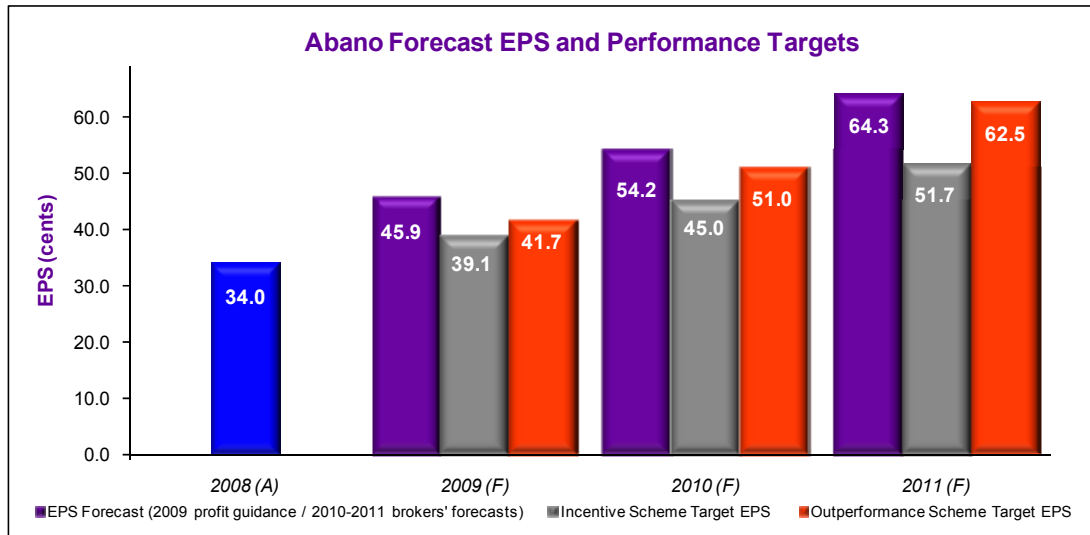
The table shows that the Company's historic growth in EPS has ranged from 55.3% to 212.9%, with a CAGR of 109.5% between 2005 and 2008.

Both the Incentive Scheme and the Outperformance Scheme performance targets have been significantly exceeded in the past three years.

Abano Forecast EPS Growth

The Abano Board's most recent 2009 profit guidance was reconfirmed on 30 July 2008 – a net profit after tax of \$10.5 million for the year which equates to EPS of 45.9 cents.

We have reviewed the EPS forecasts for Abano prepared by ABN AMRO Craigs and Forsyth Barr. The average of the two brokers' forecasts for 2010 (54.2 cents) and 2011 (64.3 cents) are set out in the graph below, along with the 2008 actual EPS, the Abano Board's 2009 profit guidance and the target EPS levels for the Incentive Scheme and the Outperformance Scheme.

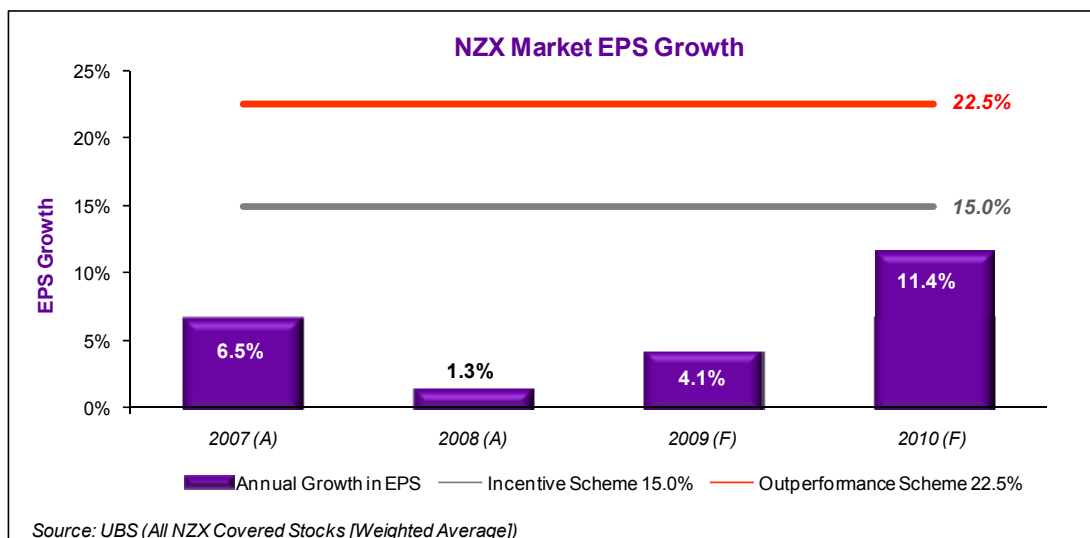


The profit guidance for 2009 (EPS of 45.9 cents) exceeds both the Incentive Scheme target EPS (39.1 cents) and the Outperformance Scheme target EPS (41.7 cents).

The average brokers' forecast EPS for 2010 and 2011 exceed both the Incentive Scheme targets and the Outperformance Scheme targets for those years.

Market EPS Growth

Set out below is the weighted average EPS growth for NZX companies covered by UBS for 2007 and 2008 (actual) and 2009 and 2010 (forecast).



The market average growth in EPS is considerably lower than the historic growth achieved by Abano up to 2008 and the forecast growth for Abano in 2009 to 2010.

The market average growth in EPS between 2007 and 2010 as measured/forecast by UBS approximates 5.8%. The Incentive Scheme performance target of 15% is more than double this figure and the Outperformance Scheme performance target is almost four times this figure.

Conclusion

We are of the view that the performance targets of 15% CAGR for the Incentive Scheme and 22.5% CAGR for the Outperformance Scheme are reasonable performance targets. Notwithstanding that Abano has achieved EPS CAGR in excess of the performance targets in the past three years and its EPS CAGR forecasts exceed the performance targets, we consider the performance targets represent appropriate hurdle rates when judged against the average market EPS growth.

2.8 Value to Mr Clarke and Mr Keys

The value of the Executive Long Term Incentive Scheme to Mr Clarke and Mr Keys is dependent upon:

- whether the performance targets are met and hence Abano does not exercise its call options
- the value of the shares at the end of the scheme.

No Value if Performance Targets not met and Abano Exercises its Call Options

In the event that the performance targets are not met, then Abano can exercise its call options and buy back the shares at the original issue price. In such circumstances, the Executive Long Term Incentive Scheme will have no value to Mr Clarke and Mr Keys.

Value of Incentive Scheme Bonuses

In the event that the Incentive Scheme performance target is met in any particular year, then Mr Clarke and Mr Keys will receive remuneration equating to a cash value of \$150,000 and \$54,000 before tax respectively for each particular year that the performance target is met. The bonuses are payable at the end date of the scheme.

Value of Outperformance Scheme Financial Assistance

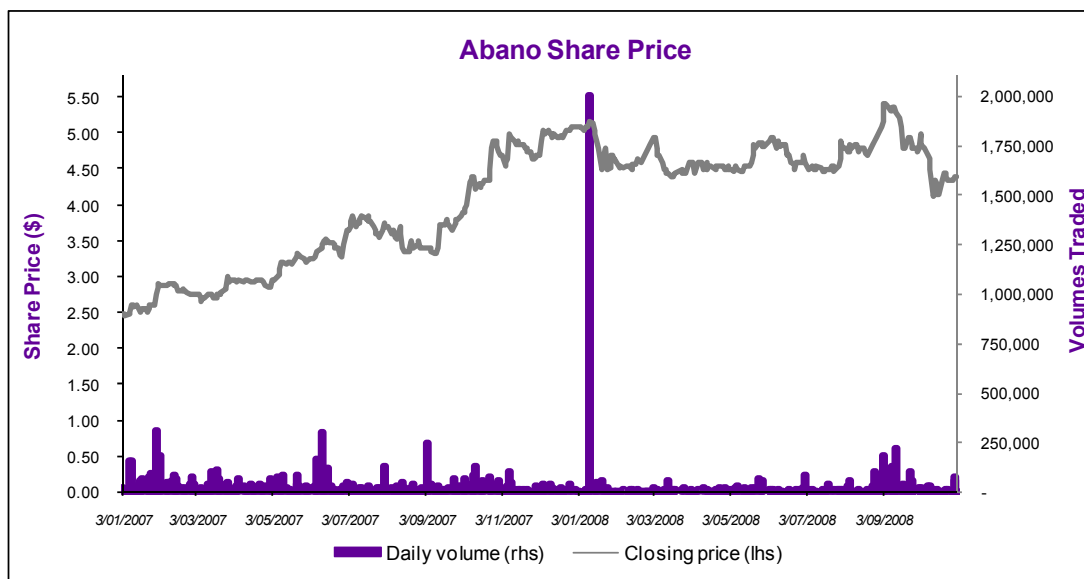
In the event that the Outperformance Scheme performance target is met, Mr Clarke and Mr Keys will not receive any additional bonuses. However, they will have had the benefit of interest-free funding to acquire the Outperformance Scheme shares. Assuming a pre tax borrowing rate of 10% per annum, the value of the interest-free financial assistance equates to a maximum of approximately \$23,000 per annum for Mr Clarke and \$8,000 per annum for Mr Keys.

Value of Outperformance Scheme Financial Assistance		
	Mr Clarke \$000	Mr Keys \$000
Maximum Outperformance Scheme loan	225	81
Interest thereon @ 10% per annum	23	8

Increases in the Value of Shares

On the basis that the increases in Abano's EPS translate to increases in Abano's share price, Mr Clarke and Mr Keys will participate in the increased value of the shares to the same extent as the Non-associated Shareholders who hold Abano shares over the same time span.

Set out below is a summary of Abano's daily closing share price and daily volumes of shares traded from 3 January 2007 to 31 October 2008.



Abano's shares have traded between \$2.46 and \$5.41 since 3 January 2007 at a VWAP of \$4.01 over the period and \$4.50 over the 20 business days to 31 October 2008.

2.9 Impact on Shareholding Levels

Share Capital and Shareholders

Abano currently has 23,029,511 ordinary fully paid shares on issue.

The names, number of shares and percentage holding of the Company's ten largest shareholders as at 3 October 2008 are set out below.

Abano's Ten Largest Shareholders		
Shareholder	No. of Shares Held	%
Healthcare Industry Limited	4,574,893	19.87%
Crescent Capital Partners Limited (Crescent)	4,534,998	19.69%
TEA Custodians Limited	1,266,743	5.50%
National Nominees New Zealand Limited	1,156,646	5.02%
Custodial Services Limited	1,096,739	4.76%
Craig Thompson	680,000	2.95%
Accident Compensation Corporation	439,427	1.91%
Forsyth Barr Custodians Limited	322,461	1.40%
S Boey, Y Chiam, K Chiam and S Chiam	321,264	1.40%
HSBC Nominees (New Zealand) Limited	320,600	1.39%
Subtotal	14,713,771	63.89%
Others (1,741 shareholders)	8,315,740	36.11%
Total	23,029,511	100.00%

Source: NZX Data

Mr Clarke currently holds 203,138 shares, representing 0.9% of the shares on issue.

Mr Keys currently holds 129,590 shares (0.6%).

Dilutionary Impact

The issue of a total of 204,000 Executive Long Term Incentive Scheme shares (based on an indicative issue price of \$4.50 per share) will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 0.9%.

We do not consider this level of dilution to be of significance to highlight it as a negative aspect of the Executive Long Term Incentive Scheme.

2.10 Accounting Issues

Accounting for the Executive Long Term Incentive Scheme will be governed by the requirements of New Zealand International Financial Reporting Standard 2: *Share-based Payment (NZ IFRS 2)*.

The Executive Long Term Incentive Scheme will be classified as compound financial instruments, consisting of a debt component (being the bonus obligations) and an equity component (representing the right to receive the shares at the end of the scheme).

The fair value of the compound financial instruments will be recorded in Abano's income statement over the duration of the scheme. The fair value of the compound financial instruments will equate to the fair value of the debt component and the fair value of the equity component.

The fair value of the debt component will be the total bonuses payable to Mr Clarke and Mr Keys, which total \$612,000.

The fair value of the equity component will equate to the value of a call option to acquire 204,000 Abano shares (based on an indicative issue price of \$4.50 per share) at \$4.50 per share on or about 31 July 2011. Using the valuation approach and key inputs used to assess the fair value of the equity component of the Previous Scheme, the indicative fair value of the equity component of the Executive Long Term Incentive Scheme will be in the vicinity of \$119,000.

Accordingly, the indicative total accounting cost of the Executive Long Term Incentive Scheme will be in the vicinity of \$731,000 which equates to approximately \$244,000 per annum.

The indicative annual accounting cost of the Executive Long Term Incentive Scheme equates to an EPS impact of approximately 1.1 cents. This is significantly lower than performance target increase in EPS for 2009 of 5.1 cents under the Incentive Scheme and 7.7 cents under the Outperformance Scheme. Thus the Executive Long Term Incentive Scheme will be EPS accretive.

2.11 Tax Issues

In general terms, the following tax benefits / implications will arise for Abano under the Executive Long Term Incentive Scheme:

- Abano will obtain a tax deduction for the bonuses paid under the Incentive Scheme to Mr Clarke and Mr Keys
- no tax deduction will be allowed to Abano for the equity component amounts that will be expensed under NZ IFRS 2
- the loans provided to Mr Clarke and Mr Keys should not be subject to fringe benefit tax (**FBT**) as they should qualify for the specific exemption in relation to “employee share loan” benefits
- the grant of the put options should not be subject to FBT on the basis that the call options granted to the Company are of equal value.

The Executive Long Term Incentive Scheme provides a tax effective structure whereby Abano is able to obtain tax deductions for the bonuses paid to Mr Clarke and Mr Keys. Mr Clarke and Mr Keys will have PAYE deducted on the bonuses.

2.12 Implications of the Resolution not being Approved

In the event that resolution 6 in respect of the Executive Long Term Incentive Scheme is not approved, the Abano Board will need to re-enter into remuneration negotiations with Mr Clarke and Mr Keys. This is unlikely to be a desirable situation for the Abano Board as it gives rise to a number of risks:

- the potential distraction and lack of focus on Company operations as further negotiations are entered into
- additional costs to the Company if the alternative remuneration packages require shareholder approval
- in the extreme case, the possibility of Mr Clarke and/or Mr Keys resigning from their positions if a suitable alternative long term incentive scheme cannot be negotiated or approved by the Non-associated Shareholders.

2.13 Voting For or Against the Resolution in Respect of the Executive Long Term Incentive Scheme

Voting for or against resolution 6 in respect of the Executive Long Term Incentive Scheme is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Evaluation of the Fairness of the MD Short Term Incentive Scheme

3.1 Basis of Evaluation

Listing Rule 1.2.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the MD Short Term Incentive Scheme are fair to the Non-associated Shareholders.

In our opinion, the MD Short Term Incentive Scheme will be fair to the Non-associated Shareholders if:

- the shares issued to Mr Clarke under the MD Short Term Incentive Scheme represent a fair level of remuneration to Mr Clarke
- the terms and conditions of the MD Short Term Incentive Scheme are fair.

We have evaluated the fairness of the MD Short Term Incentive Scheme by reference to:

- the rationale for the scheme
- the value of the scheme to Mr Clarke
- the scheme's terms and conditions
- the impact of the scheme on shareholding levels
- accounting issues arising
- taxation issues arising.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

3.2 Evaluation of the Fairness of the MD Short Term Incentive Scheme

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the MD Short Term Incentive Scheme are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 3.3 to 3.9. In summary, the key factors leading to our opinion are:

- the rationale for the MD Short Term Incentive Scheme is sound
- the overall remuneration level for Mr Clarke will not change
- the dilutionary impact on Non-associated Shareholders will be negligible
- any shares issued will be issued at market value
- the issue of shares under the MD Short Term Incentive Scheme will result in a negligible decrease in EPS and a negligible increase in the Company's net tangible assets (**NTA**)
- the MD Short Term Incentive Scheme will be tax neutral for both Abano and Mr Clarke.

3.3 MD Short Term Incentive Scheme

Background

The Company has previously operated a scheme where its senior executives could choose to have their short term incentive bonus paid out in shares rather than cash. This was one of the few mechanisms for senior executives to acquire shares under the NZX continuous disclosure obligations, with the shares being issued at market value.

While the Abano Board can issue shares to non directors under certain conditions, there are significant restrictions on issuing shares to a director and generally this requires shareholder approval.

Under the terms of Mr Clarke's employment agreement, he is entitled to receive an annual short term incentive bonus, which has historically been up to 25% of his salary. The current level of his annual short term incentive bonus is \$96,000.

The Abano Board proposes to give Mr Clarke the option of taking any net cash short term incentive bonus payable to him by way of the issue of shares through the implementation of the MD Short Term Incentive Scheme.

Key Terms

Under the MD Short Term Incentive Scheme, the Abano Board may issue shares in consideration for the monetary remuneration that Mr Clarke is entitled to receive by way of bonus pursuant to his employment agreement on the following terms and conditions:

- at the commencement of each financial year, the Board in consultation with Mr Clarke will set the key performance indicators for Mr Clarke to achieve for that financial year
- the total short term incentive bonus entitlement will not exceed 25% of the salary paid to Mr Clarke by the Company in that financial year
- shortly after the Company's financial statements are completed at the end of each financial year, the Board will meet with Mr Clarke and using the key performance indicators determine the gross monetary bonus entitlement that he will be entitled to receive for that year
- the Board will deduct the relevant taxation payable from the entitlement to determine the net bonus amount payable to Mr Clarke
- subject to the Board being satisfied that the consideration for, and the terms of the issue of the shares are fair, as soon as practicable after the release of the Company's annual results to the market, the Board will give Mr Clarke the option to receive the net bonus amount in cash or through the issue of shares
- Mr Clarke may choose to receive some or all of the net bonus amount paid in cash or through the issue of shares
- the price for any shares issued to Mr Clarke under the scheme will be the VWAP over the five trading days immediately following the announcement of the Company's annual result in the relevant year

- the maximum number of shares that may be issued to Mr Clarke under the scheme over the three years following shareholder approval will be 120,000 shares and the maximum number of shares that may be issued to Mr Clarke in any financial year under this scheme will be 40,000 shares
- all shares issued to Mr Clarke under the scheme will rank equally in all respects with all other existing shares in the Company and be held subject to the terms of Company's constitution
- the Board will only be required to offer Mr Clarke the option to take shares in lieu of his net bonus amount from time to time if the Board is satisfied that the consideration for and the terms of the issue of the shares are fair and reasonable to the Company and to all existing shareholders and that the issue will not give rise to any breach by the Company of any statutory or NZSX Listing Rules requirements
- any shares issued to Mr Clarke under the scheme in each year must be issued within two months of the Company's announcement of its annual results or otherwise the cash equivalent must be paid. In accordance with Listing Rule 7.3.2, shares may only be issued to Mr Clarke under the scheme during the 36 months following shareholder approval of the scheme.

3.4 Rationale for the MD Short Term Incentive Scheme

The MD Short Term Incentive Scheme offers the Company's MD an opportunity to acquire shares in the Company in compliance with the NZX continuous disclosure obligations and Listing Rules.

In our view, the rationale for the MD Short Term Incentive Scheme is sound as it further aids in aligning the interests of Mr Clarke with those of the Company's shareholders through enabling Mr Clarke to increase his shareholding in the Company.

3.5 Mr Clarke's Remuneration Package

Details of Mr Clarke's remuneration package are set out in section 2.5.

The MD Short Term Incentive Scheme will not result in any change in the value of Mr Clarke's remuneration package or the accounting cost of his package. The only change is that Mr Clarke may be paid his short term incentive bonus in shares rather than cash if he so chooses.

3.6 Dilutionary Impact on Non-associated Shareholders

The issue of the maximum of 120,000 MD Short Term Incentive Scheme shares will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 0.5% (before the impact of any Executive Long Term Incentive Scheme shares).

We consider this level of dilution to be minor.

3.7 Value Implications

Any shares issued under the MD Short Term Incentive Scheme will be issued at market value. Accordingly there will be no value transfers from the Non-associated Shareholders to Mr Clarke.

If shares are issued to Mr Clarke rather than a cash bonus being paid, then this will result in:

- an increase in the number of shares on issue
- an increase in the Company's level of NTA (equating to the value of the shares issued to Mr Clarke)
- no change to the Company's remuneration costs (and hence no change to its earnings).

The overall impact of the above will be a marginal decrease in EPS and a marginal increase in NTA. However, we do not consider the marginal decrease in EPS to be of significance to highlight it as a negative aspect of the MD Short Term Incentive Scheme.

3.8 Tax Implications

The MD Short Term Incentive Scheme will be tax neutral to Abano and Mr Clarke:

- Abano will still receive a deduction for the gross value of any bonus payable to Mr Clarke irrespective of whether it is paid by way of cash or the issue of shares
- Mr Clarke will receive shares equating to the net value of any cash bonus he would otherwise have received and such shares will be issued at market value, thus no further tax liability for Mr Clarke is likely to arise.

3.9 Implications of the Resolution not being Approved

In the event that resolution 5 in respect of the MD Short Term Incentive Scheme is not approved, the Abano Board will need to re-enter into remuneration negotiations with Mr Clarke. This is unlikely to be a desirable situation for the Abano Board for the reasons set out in section 2.12.

3.10 Voting For or Against the Resolution in Respect of the MD Short Term Incentive Scheme

Voting for or against resolution 5 in respect of the MD Short Term Incentive Scheme is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Sources of Information, Reliance on Information, Disclaimer and Indemnity

4.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft Abano notice of annual meeting
- the Abano 2006, 2007 and 2008 annual reports
- the employment contract between Mr Clarke and Abano dated 2 February 2000 and subsequent variations thereto
- the employment agreement between Mr Keys and Abano dated 10 August 2004 and subsequent variations thereto
- the draft Executive Long Term Incentive Scheme Terms
- the draft Loan Agreements between Abano and Mr Clarke and Mr Keys
- the draft Share Mortgage Agreements between Abano and Mr Clarke and Mr Keys
- the HayGroup reports to Abano dated 19 March 2007 and 31 March 2008 in respect of the remuneration packages for Mr Clarke and Mr Keys
- tax advice in respect of the Executive Long Term Incentive Scheme prepared by Russell McVeagh dated 3 September 2008
- the Independent Adviser's Report prepared by KordaMentha dated December 2007 in respect of the full takeover offer for the Company by Crescent
- share price data and shareholder data from NZX Data
- brokers reports from ABN AMRO Craigs, Forsyth Barr and UBS.

During the course of preparing this report, we have had discussions with and/or received information from the Independent Directors and executive management of Abano and Abano's legal advisers.

The Independent Directors have confirmed that we have been provided for the purpose of this Appraisal Report with all information relevant to the Executive Long Term Incentive Scheme and the MD Short Term Incentive Scheme that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Appraisal Report.

In our opinion, the information to be provided by Abano to the Non-associated Shareholders is sufficient to enable the Independent Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of whether the Executive Long Term Incentive Scheme and the MD Short Term Incentive Scheme are fair to the Non-associated Shareholders.

4.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Abano and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Abano. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

4.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Abano will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Abano and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update its report.

We have had no involvement in the preparation of the notice of meeting issued by Abano and have not verified or approved the contents of the notice of meeting. We do not accept any responsibility for the contents of the notice of meeting except for this report.

4.4 Indemnity

Abano has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Abano has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), CFIP.

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

5.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Abano that could affect our ability to provide an unbiased opinion in relation to this transaction.

Simmons Corporate Finance has not had any part in the formulation of the Executive Long Term Incentive Scheme or the MD Short Term Incentive Scheme or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Executive Long Term Incentive Scheme or the MD Short Term Incentive Scheme. We will receive no other benefit from the preparation of this report.

5.3 Declarations

Advance drafts of this report were provided to the Independent Directors. Certain changes were made to the drafting of the report as a result of the circulation of the drafts. However, there was no material alteration to any part of the substance of this report, including the methodology or conclusions as a result of issuing the drafts.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

5.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of meeting to be sent to Abano's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons
Director
Simmons Corporate Finance Limited

3 November 2008