

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 2008, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

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	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
SEGMENT REVENUE	43,619	30,850	19,319	16,432	33,721	22,512	27,229	19,662	123,888	89,456
OPERATING RESULT¹										
Segment	11,595	6,881	2,818	1,605	5,034	2,351	1,290	164	20,737	11,001
Unallocated									(1,536)	(837)
Operating result (before interest and taxation)									19,201	10,164
ASSETS										
Segment assets	91,791	65,578	18,338	18,154	28,553	21,350	22,929	15,400	161,611	120,482
Investments in Associates									551	477
Unallocated assets									1,490	2,932
Total assets									163,652	123,891
LIABILITIES										
Segment liabilities	54,039	37,933	2,001	1,623	11,292	8,015	5,608	4,514	72,940	52,085
Unallocated liabilities									35,389	19,398
Total liabilities									108,329	71,483
CAPITAL EXPENDITURE	2,092	1,996	427	183	6,004	654	3,054	1,152	11,577	3,985
DEPRECIATION	840	588	197	207	1,335	662	966	751	3,338	2,208
Unallocated									88	107
									3,426	2,315
AMORTISATION	253	522	57	32	102	143	44	161	456	858
Unallocated									43	7
									499	865

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 2008.

The Group operates principally in one geographical segment, being New Zealand. The Group has commenced business in Australia, however Australia does not represent a separate reportable business. There is no inter-segment revenue.

3. REVENUE

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Sale of goods	46,839	31,841	-	-
Services rendered	77,049	57,615	-	-
Management fees	-	-	213	431
	123,888	89,456	213	431

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Operating expenses include:				
Directors' fees ¹	376	242	258	223
Donations	17	19	11	18
Fair value loss on foreign currency forward contracts	-	6	-	-
Increase in provisions	-	124	-	-
Net loss on sale of fixed assets	28	21	-	4
Rental expense on operating leases	5,204	3,054	103	116
Auditors' fees				
Audit services	302	266	101	85
Other services provided ²	58	32	5	9

¹ Additional directors' fees totalling \$50,000 were paid to the Abano board in relation to takeover activity during the year. These fees were reimbursed in full by the unsuccessful takeover parties and did not impact the Group or Company's profit for the year.

² Mainly includes the provision of accounting technical advice. Additional fees totalling \$16,000 paid for services in relation to acquisition activity were capitalised during the year.

5. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Operating income includes:				
Affiliate income	-	34	-	-
Dividends received from subsidiaries	-	-	8,738	3,826
Net foreign exchange gains	-	22	-	-
Gain on sale of investment	166	286	154	-
Sundry other income	104	162	-	-
	270	504	8,892	3,826

6. NET FINANCING COSTS

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Financial income				
Cash and cash equivalents	344	318	166	81
Trade and other receivables	43	78	-	78
Fair value gain on interest swaps	19	81	-	81
	406	477	166	240
Financial expenses				
Bank borrowings	(1,174)	(1,006)	-	(750)
Other borrowings	(1,621)	(238)	(1,298)	(84)
Fair value loss on interest swaps	(191)	-	(191)	-
Fair value amortisation on put options	(2,281)	(1,254)	(2,281)	(1,200)
	(5,267)	(2,498)	(3,770)	(2,035)
Net financing costs	(4,861)	(2,021)	(3,604)	(1,795)

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current tax expense				
Current year	6,199	3,698	(1,350)	(927)
Under provision for prior years	136	74	62	-
	6,335	3,772	(1,288)	(927)
Deferred tax expense				
Movement in temporary differences	(72)	(403)	(143)	12
Under provision for prior years	140	38	132	-
Recognition/(Utilisation) of tax losses	(724)	-	-	-
	(657)	(365)	(11)	12
Total income tax expense in income statement	5,678	3,407	(1,299)	(915)

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Reconciliation of accounting profit and taxable income				
Profit before tax	14,513	8,736	2,279	6
Taxation at 33% (30% for Australian operations)	4,847	2,883	752	2
Non deductible put option	-	-	752	396
Non deductible items	890	476	52	83
Tax exempt dividends	-	-	(893)	-
Gross up imputation credits	-	-	980	621
Imputation credits	-	-	(2,971)	(1,884)
Non assesable items	(108)	(64)	(51)	(133)
Impact of tax rate change	88	-	10	-
Prior period adjustment	(39)	112	70	-
Total income tax expense in income statement	5,678	3,407	(1,299)	(915)

	COMPANY	
	2008 \$000	2007 \$000
Imputation credit account		
Balance at beginning of year	2,553	511
Credits lost through loss of shareholder continuity	(2,757)	-
Credits attached to dividends received	2,971	2,042
Credits attached to dividends paid	(2,664)	-
Balance at end of year	103	2,553
Imputation credits available to shareholders of the parent company:		
Through the parent	103	2,553
Through subsidiaries	2,806	1,827
	2,909	4,380

NOTES TO THE FINANCIAL STATEMENTS

8. CHANGE IN ESTIMATES

Each year the Group makes estimate assumptions in preparation of the financial statements. During the year to 31 May 2008 the Group changed its estimate of when it is probable that the economic benefits associated with revenue from some of its customers in the audiology sector will flow to the Group.

The audiology business recognises revenue from its customers once the hearing equipment has been fitted. At this stage the revenue has been assessed as being receivable by the Group as the amount of revenue can be reliably estimated, the costs incurred can be reliably estimated and the transaction can be reliably measured as complete and it is probable that economic benefits will flow to the Group. In prior periods the estimate of when it was considered probable that economic benefits will flow was considered with respect to certain customers of the Group to be at the point the patient had been fitted with the hearing equipment and an invoice was subsequently issued. Due to increased data and historical evidence now available to the Group, the estimate of this probable flow of economic benefits has changed in line with other estimates of audiology revenue used in previous periods.

The change in estimate has had the effect of increasing revenue and receivables by \$2.4 million in the year to 31 May 2008.

9. PROPERTY, PLANT AND EQUIPMENT

GROUP	\$000	LAND & BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	WORK IN PROGRESS
AT 1 JUNE 2006					
Cost or valuation	16,787	3,854	11,973	924	36
Accumulated depreciation	(9,440)	(1,627)	(7,355)	(458)	-
Net Book Value	7,347	2,227	4,618	466	36
YEAR ENDED 31 MAY 2007					
Opening net book value	7,347	2,227	4,618	466	36
Additions	6,176	1,622	4,374	142	38
Disposals	(249)	(12)	(195)	(6)	(36)
Acquired through business combinations	1,126	140	986	-	-
Revaluations	-	-	-	-	-
Depreciation	(2,315)	(863)	(1,318)	(134)	-
Closing Net Book Value	12,085	3,114	8,465	468	38
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

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

COMPANY	\$000	LAND & BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	WORK IN PROGRESS
AT 1 JUNE 2006					
Cost or valuation	621	293	328	-	-
Accumulated depreciation	(134)	(31)	(103)	-	-
Net Book Value	487	262	225	-	-
YEAR ENDED 31 MAY 2007					
Opening net book value	487	262	225	-	-
Additions	125	50	75	-	-
Disposals	(97)	(6)	(91)	-	-
Depreciation	(107)	(51)	(56)	-	-
Closing Net Book Value	408	255	153	-	-
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	-	-

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	GROUP			COMPANY		
	GOODWILL	OTHER	TOTAL \$000	GOODWILL	OTHER	TOTAL \$000
AT 1 JUNE 2006						
Cost or valuation	71,914	2,489	74,403	1,545	123	1,668
Accumulated amortisation	(2,156)	(1,527)	(3,683)	(65)	(38)	(103)
Net Book Value	69,758	962	70,720	1,480	85	1,565
YEAR ENDED 31 MAY 2007						
Opening net book value	69,758	962	70,720	1,480	85	1,565
Additions	7,664	688	8,352	-	63	63
Disposals	-	-	-	-	-	-
Acquisition of subsidiary	4,739	-	4,739	-	-	-
Fair value put option	6,099	-	6,099	-	-	-
Impairment charge	-	-	-	-	-	-
Transfer to subsidiary	-	-	-	(1,480)	(10)	(1,490)
Amortisation charge	-	(865)	(865)	-	(7)	(7)
Closing Net Book Value	88,260	785	89,045	65	176	241
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

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:

	2008 \$000	2007 \$000
Audiology	67,941	53,803
Rehabilitation	13,240	13,240
Diagnostics	13,514	11,236
Dental	13,617	9,981
	108,312	88,260

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

11. INVESTMENTS IN SUBSIDIARIES

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Shares in subsidiaries	-	-	89,487	80,470

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	
			2008	2007
Abano Rehabilitation Limited		Rehabilitation	100%	100%
Aotea Pathology Limited		Diagnostic	55%	55%
Ascot Radiology Limited		Diagnostic	73%	80%
Bay Audio Pty Limited		Audiology	82%	85%
Bay Audiology Limited		Audiology	70%	70%
Greenlane Imaging Limited		Diagnostic	0%	80%
Lumino Dental Limited		Dental	100%	100%
New Zealand Dental Group 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, with the exception of Orthotic Centre (NZ) Limited, Orthotic Centre (Midlands) Limited and Orthotic Centre (Wellington) Limited, which all have a 30 June balance date.

Bay Audio Pty Limited is incorporated in Australia. All other entities are incorporated in New Zealand.

ACQUISITION OF SUBSIDIARIES

Current Year

No new subsidiaries were acquired during the 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%.

Prior Year

In September 2006 a new subsidiary was formed called Aotea Pathology Limited. The Group owns 55% of this entity, which acquired the assets of Wellington Pathology Limited and Valley Diagnostics Limited, a subsidiary of Sonic Healthcare Pty Limited.

In October 2006 the Group acquired the remaining 30% of Orthotic Centre (NZ) Limited for a total cash consideration of \$2.4M.

In December 2006 a new subsidiary called Bay Audio Pty Limited was formed to facilitate the expansion of the audiology sector into Australia.

In February 2007 a new subsidiary was formed called Greenlane Imaging Limited. This acquired the business of Greenlane Imaging on the 28th of February for \$1.2M and 20% shareholding to the vendors.

The operating results of these business were included in the income statement from their formation date with a minority interest expense being recognised.

On 30 May 2007 the Group exercised its option to acquire an additional 40% shareholding in Ascot Radiology Limited for a total cash consideration of \$2.57M.

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS IN SUBSIDIARIES CONTINUED

ACQUISITION OF BUSINESSES

During the year the Group acquired the following businesses:

The Hearing Centre (South Brisbane)	1 July 2007
Anzac Street Dental Centre (Auckland)	7 July 2007
Shearer Dental (Oamaru)	1 August 2007
Smile By Design (Whangarei)	1 September 2007
Advanced Hearing Systems (Invercargill)	3 September 2007
Masterton Dental Rooms (Masterton)	1 November 2007
City Dental at Quay Park (Auckland)	3 November 2007
Five Cross Roads Dental Centre (Hamilton)	3 November 2007
Advanced Hearing Aid Specialists (Gold Coast)	15 November 2007
Burton & Brown Dental (Wellington)	16 November 2007
Capital Endodontics (Wellington)	1 May 2008
Access Audiology Ltd (Auckland)	1 May 2008
Remuera Village Dentists (Auckland)	31 May 2008

Summary of the effect of the acquisitions:

	DENTAL \$000	AUDIOLOGY \$000	TOTAL \$000
Fair value of net assets acquired:			
Current assets	104	146	250
Current liabilities	(24)	-	(24)
Non-current liabilities	-	-	-
Non-current assets	891	125	1,016
Acquisition costs	95	393	488
Goodwill on acquisition	2,835	4,078	6,913
Consideration paid	3,901	4,742	8,643
Deferred acquisition consideration	705	1,427	2,132
Total Consideration	4,606	6,169	10,775
Goodwill on acquisition	2,835	4,078	6,913
Deferred acquisition consideration	705	1,427	2,132
Acquisition costs	95	393	488
Total goodwill recognised	3,635	5,898	9,532

NOTES TO THE FINANCIAL STATEMENTS

12. INVESTMENTS IN ASSOCIATES

The Group's investments in associates comprises:

	INTEREST HELD			
	2008	2007		
Dilworth Audiology Limited	40%	40%		
	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Balance at beginning of the year	477	1,865	-	1,078
Acquisition	-	-	-	-
Share of profit	173	593	-	398
Dividends	(99)	(389)	-	-
Transfer to investment in subsidiaries	-	(1,592)	-	(1,476)
Balance at end of the year	551	477	-	-
Goodwill included in the carrying amount of investments in associates:				
Balance at beginning of the year	-	1,280	-	1,280
Balance at end of the year	-	-	-	-

Summary of financial information for significant associates:

	DILWORTH AUDIOLOGY LIMITED	DILWORTH AUDIOLOGY LIMITED
	2008 \$000	2007 \$000
Assets	1,647	1,620
Liabilities	(794)	(967)
Equity	853	652
Revenues	5,402	5,037
Profit	449	411

NOTES TO THE FINANCIAL STATEMENTS

13. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP 2008		GROUP 2007	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest-rate swaps	73	-	264	-
Forward foreign exchange contracts	-	9	-	28
TOTAL	73	9	264	28
Less non-current portion				
Interest-rate swaps	12	-	239	-
CURRENT PORTION	61	9	25	28

Interest-rate Swaps

The notional principal amounts of outstanding interest-rate swap contracts at 31 May 2008 were \$21.5M (2007: \$10M). At 31 May 2008 the fixed rates vary from 6.2-8.1% (2007: 6.2-6.3%) and the floating rates are BKBM.

Foreign exchange forward contract

The notional principal amounts of outstanding forward contracts at 31 May 2008 were \$0.4M (2007: \$0.8M).

The Group has exposure to foreign currency risk as a result of transactions denominated in USD from normal trading activities. The foreign exchange contract expires in May 2009.

14. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current				
Trade receivables	15,099	10,112	14	14
Prepayments	894	479	109	11
Other receivables	7,142	1,957	269	50
Prepaid banking costs	-	122	-	122
Owing from related parties	343	263	-	263
Owing from associates	-	438	-	-
Owing from subsidiaries	-	-	20,192	2,358
	23,478	13,371	20,584	2,818
Non-Current				
Owing from related parties	878	10	-	-
Other non-current receivables	-	-	-	-
	878	10	-	-
Impaired trade and other receivables				
Neither past due or impaired	20,778	11,287		
Past due but not impaired	2,700	2,084		
Impaired	221	222		
Gross	23,699	13,593		
Less provision for impairment of receivables	(221)	(222)		
	23,478	13,371		

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

Opening balance	222	359
Provision for doubtful debt recognised during the year	124	159
Release of prior period doubtful debts	-	(213)
Receivables written off during the year as uncollectable	(125)	(83)
Closing balance	221	222

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

NOTES TO THE FINANCIAL STATEMENTS

15. DEFERRED INCOME TAX

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

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Balance at start of year	995	673	(47)	10
Acquisition of subsidiary	(156)	-	-	-
Disposal of subsidiary	-	(43)	-	(44)
Benefit of tax loss recognised	724	-	-	-
Income statement charge	72	365	143	(13)
Balance at end of year	1,635	995	96	(47)

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

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Property, plant and equipment	39	174	(6)	(3)
Employee benefits	803	709	124	26
Trade and other receivables	88	74	-	-
Trade and other payables	-	44	-	-
Provisions	-	39	-	(27)
Benefit of tax loss recognised	725	-	-	-
Other items	(19)	(46)	(22)	(44)
	1,635	995	96	(47)

Deferred income tax assets are recognised for the loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has recognised a deferred tax asset of \$0.7M (2007: NIL) in respect of losses amounting to \$2.4M that can be carried forward against future taxable income.

The Group does not have any unrecognised deferred tax assets relating to tax loss carry-forwards (2007: \$0.2M).

16. INVENTORIES

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Raw materials and consumables	1,769	1,448	-	-
Work in progress	155	373	-	-
Finished goods and goods for sale	1,988	2,235	-	-
	3,912	4,056	-	-

The Group has recognised a loss of \$63,000 (2007: \$45,000) in respect of inventories written down. The loss has been included in Change in Inventories in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

17. SHARE CAPITAL

	Number of Shares 000	Ordinary Shares \$000	Treasury Shares \$000	TOTAL \$000
At 31 May 2006	23,010	54,519	(482)	54,037
Executive compensation scheme - value of services provided		28		28
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		30		30
At 31 May 2008	23,030	54,637	(482)	54,155

As at 31 May 2008 there were 23,029,503 ordinary shares on issue (2007: 23,009,503). 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:

Convertible notes

On 1 June 2007 a convertible note with a face value of \$60,000 converted at \$3.00 per share to 20,000 shares. The closing share price on the date of the conversion was \$3.25.

Convertible notes with a face value of \$112,000 expired on 1 June 2007. The Group now has no convertible notes on issue.

Executive Share Scheme

On 23 March 2006, 308,974 shares were issued under the employee share scheme approved by shareholders on 23 September 2005. Under the share scheme, certain employees are entitled to purchase the shares at their original issue price of \$1.56 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 23 March 2009 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 stock of the company.

NOTES TO THE FINANCIAL STATEMENTS

18. EARNINGS PER SHARE

	GROUP	
	2008 \$000	2007 \$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	7,823	5,042
Weighted average number of ordinary shares on issue	23,029	23,010
Basic earnings per share (cents)	33.97	21.91
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	23,029	23,010
Weighted average number of convertible notes	-	152
Weighted average number of shares and notes	23,029	23,162
Diluted earnings per share (cents)	33.97	21.77

19. DIVIDENDS - ORDINARY SHARES

			GROUP		COMPANY	
	2008 Cents	2007 Cents	2008 \$000	2007 \$000	2008 \$000	2007 \$000
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	-	-	269	-	-	-
	24	-	5,888	-	5,619	-

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

Supplementary dividends of \$90,608 (2007: NIL) 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

20. BORROWINGS

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current borrowings				
Bank overdraft	1,153	566	132	566
Secured bank loans	-	-	-	-
Executive convertible notes	-	283	-	283
Unsecured loans	45	266	(7)	53
	1,198	1,115	125	902
Non-current borrowings				
Secured bank loans	35,400	15,000	35,400	15,000
Executive convertible notes	-	-	-	-
Unsecured loans	748	1,158	-	-
	36,148	16,158	35,400	15,000
Term schedule				
Later than one year, less than two	56	1,158	-	-
Later than two years, less than five	35,604	15,000	35,400	15,000
Over five years	488	-	-	-
	36,148	16,158	35,400	15,000

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

The Group currently has a \$60M term debt facility with ASB Bank with an initial term of four years, maturing February 2010. Remaining funds of \$25.5M were undrawn at balance date. The current interest-rate on this facility is 9.38%.

The Group's overdraft facilities have a limit of \$1M, with a current interest-rate of 10.15%.

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 2008				
Total borrowings	1,153	34,912	-	36,065
Effect of interest-rate swaps (note 13)	(3,000)	(7,000)	-	(10,000)
	(1,847)	27,912	-	26,065
As at 31 May 2007				
Total borrowings	849	15,000	-	15,849
Effect of interest-rate swaps (note 13)	(3,000)	(7,000)	-	(10,000)
	(2,151)	8,000	-	5,849

NOTES TO THE FINANCIAL STATEMENTS

21. DEFERRED ACQUISITION CONSIDERATION

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current deferred acquisition consideration				
Put option liabilities	-	-	-	-
Acquisition retention amounts	483	470	-	-
Acquisition earn-out liabilities	1,163	572	-	-
	1,646	1,042	-	-
Non-current deferred acquisition consideration				
Put option liabilities	40,019	28,529	40,019	28,529
Acquisition retention amounts	1,649	2,030	-	-
Acquisition earn-out liabilities	1,097	970	-	-
	42,765	31,529	40,019	28,529
Term schedule				
Later than one year, less than two	572	3,000	-	-
Later than two years, less than five	42,148	28,529	-	28,529
Over five years	45	-	-	-
	42,765	31,529	-	28,529

The put option liability relate to an option issued by the Company to minority interest shareholders of a subsidiary (refer note 11). 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 an after tax rate of 6.57% p.a.

Acquisition retention amounts represent the portion of the purchase price of dental 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

22. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current				
Accounts payable	11,732	9,093	31	203
Employee entitlements	6,751	3,674	864	356
Directors' fees	22	56	22	56
Sundry creditors and accruals	6,774	3,947	364	105
Settlement of Ascot Radiology option	-	2,570	-	2,570
	25,279	19,340	1,281	3,290
Non-current				
Finance leases	1,025	832	-	187
Employee entitlements	155	1,251	-	-
	1,180	2,083	-	187

23. PROVISIONS

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
RESTRUCTURING PROVISION				
Balance at start of year	188	87	-	87
Provisions made during the year	-	188	-	-
Provisions used during the year	(188)	(87)	-	(87)
Balance at end of the year	-	188	-	-
Current	-	188	-	-
Non-current	-	-	-	-
	-	188	-	-

Restructuring

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

NOTES TO THE FINANCIAL STATEMENTS

24. LEASES

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
OPERATING LEASES				
Non-cancellable operating lease obligations				
Not later than one year	4,437	3,578	124	106
Later than one year, not later than five	8,765	8,503	288	353
Later than five years	64	1,301	-	-
Total lease commitments	13,266	13,382	412	459
FINANCE LEASES				
Non-cancellable finance lease obligations				
Not later than one year	251	175	-	-
Later than one year, not later than five	1,002	636	-	-
Later than five years	23	541	-	-
Total lease commitments	1,276	1,352	-	-

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 operational leases, or the finance lease.

25. COMMITMENTS

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Amount committed to capital expenditure	3,132	1,338	-	-

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

As at 31 May 2007 the Group had a capital commitment in relation to the refurbishment of Aotea Pathology's laboratories and offices at its premises in Courtney Place, Wellington. The refurbishment was completed during the year.

26. SHARE-BASED PAYMENTS

EXECUTIVE CONVERTIBLE NOTES

In 2001, the Eldercare New Zealand Limited Convertible Note Plan was established. Under this plan certain executives of the Group were offered an opportunity to subscribe for optional convertible notes. The Company advanced the funds required to purchase the notes and these advances are repayable when the notes convert into ordinary shares or are otherwise redeemed. The notes were issued over a period of three years, and have varying conversion prices.

On 1 June 2007 a convertible note with a face value of \$60,000 converted at \$3.00 per share to 20,000 shares. The closing share price on the date of the conversion was \$3.25. Convertible notes with a face value of \$112,000 expired on 1 June 2007. The Group now has no convertible notes on issue.

Summary of executive convertible notes on issue:

	GROUP	
	2008 \$000	2007 \$000
Balance at beginning of year	283	1,105
Cancelled during the year	(112)	(564)
Converted during the year	(60)	-
Interest repaid during the year	-	-
Interest reversed on notes cancelled during the year	(111)	(331)
Interest accrued during the year	-	73
Fair value gain/(loss) on notes cancelled/converted	-	-
Balance at end of year	-	283

NOTES TO THE FINANCIAL STATEMENTS

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 5 trading days. A loan of \$482,000 was provided to employees on this date to acquire the Share Scheme Shares.

The employee does 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 \$1.56 per share. The proceeds from the exercising of the put options are to be used to repay the remaining "uncalled" Share Scheme Shares. If the employee exercises the put option, they become entitled to a performance bonus equal to the amount of outstanding loan at the end of the Scheme.

The fair value of the employee's option to receive shares at the end of the Scheme at the issue price of \$1.56 has been valued using the Black Scholes model. The option was valued at \$90,043 and the Group is amortising this value over the period of service. During the current year \$30,011 was charged to the income statement as executive remuneration.

27. RELATED-PARTY INFORMATION

The Group has related-party transactions with its subsidiaries (see note 11), associates (see note 12) 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 \$266,000 (2007:\$220,000) were paid by the Group. A balance of \$27,000 is owed by the Group at 31 May 2007 (2006: \$NIL). All leases are carried out at arms length an on normal commercial terms.

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 \$998,000 (2007:nil) were provided by CME Radiology Services Limited. A balance of \$20,000 is owed by the Group at 31 May 2008 (2007:nil).

Transactions between the Company and its subsidiaries include cash advances, expenditure recharges and the provision of management services. At year end a balance of \$20.306M was owing by subsidiaries (2007: \$2.358M).

In the prior year the Group disclosed the following related party transactions. The named parties were not associated persons during the 2008 financial year.

The Group utilised the services of Sammies Securities Limited for the servicing and repair of rehabilitation equipment, of which Mr V Sampson (minority shareholder in Orthotic Centre NZ Limited) was an associated person. During the prior year services to the value of \$174,000 were provided by Sammies Securities Limited. A balance of \$25,000 was owed by the Group at 31 May 2007.

The Group leased premises from PACK Limited, of which Mr C Teague, Mr P Bethwaite and Mr A Tie were associated persons. During the prior year rentals totalling \$30,000 were paid by the Group.

The key management compensations are as follows:

	GROUP		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Key Management compensation				
Short-term benefits	5,299	4,142	1,447	1,072
Other long-term benefits	161	692	161	161
Share-based payments	30	28	30	28
	5,490	4,862	1,638	1,261

NOTES TO THE FINANCIAL STATEMENTS

28. SUBSEQUENT EVENTS

DECLARED DIVIDEND

On 30th July 2008 the Board declared a final dividend of 5.0 cents per share (\$1.15 Million) in respect to the year ended 31 May 2008. The dividend will be paid on Wednesday, 21st August 2008. The record date for determination of entitlements to the dividend is Thursday, 14th August 2008.

BUSINESS ACQUISITIONS

On 10 June 2008, the Group acquired a 70% shareholding in Dental Partners Pty Limited, an Australian dental business. This entity has acquired nine practices since balance date and they are:

Tweed Dental Centre	26 June 2008	Totally Teeth	1 July 2008
Coyne Dental	26 June 2008	Dental Solutions	1 July 2008
Lynch Dental	27 June 2008	Dr Derry Rogers	2 July 2008
Coastal Orthodontics	27 June 2008	The Dental Centre	3 July 2008
The Family Dental Centre	27 June 2008		

On 1 July 2008, the Group acquired Dental Designs, a dental laboratory in Auckland.

Summary of the effect of the acquisitions:

	DENTAL \$000
Fair value of net assets acquired:	
Current assets	696
Current liabilities	(172)
Non-current liabilities	-
Non-current assets ¹	2,421
Acquisition costs	699
Goodwill on acquisition	8,941
Consideration paid	12,585
Deferred acquisition consideration	1,434
Total Consideration	14,019
Goodwill on acquisition	8,941
Deferred acquisition consideration	1,434
Acquisition costs	699
Total goodwill recognised	11,074

¹ Values for Non-current assets have not yet been finalised.

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards, amendments, and interpretations to existing standards have been issued and will be effective for the Group's accounting periods beginning on or after 1 June 2008 and have not yet been adopted.

NZ IFRS 3: Business Combinations (revised) and NZ IAS 27 Consolidated and Separate Financial Statements (revised) are mandatory for reporting periods beginning on or after 1 June 2009. The standard no longer permits acquisition costs to be capitalised and the contingent consideration to be recognised at the date of acquisition with all future changes being recognised in the income statement.

NZ IFRS 8: Operating Segments is mandatory for reporting periods on or after 1 January 2009. The standard requires segments to be identified on the basis of reporting to chief decision makers of the organisation and requires information provided to the chief decision makers to be presented in the financial statements.

NZ IAS 1: Presentation of Financial Statements is mandatory for reporting periods beginning on or after 1 June 2009. Changes to presentation and disclosure requirements.

Amendments to IAS 23: Borrowing Costs is mandatory for reporting periods beginning on or after 1 June 2009. The amendment removes the option of expensing borrowing costs incurred in the construction of qualifying assets. Borrowing costs incurred in relation to assets that take a substantial period of time to get ready for intended use must be capitalised as part of the cost of the asset.

NOTES TO THE FINANCIAL STATEMENTS

29. RECONCILIATION OF OPERATING CASHFLOWS

For the year ended 31 May 2008

	GROUP		COMPANY	
	MAY 2008 \$000	MAY 2007 \$000	MAY 2008 \$000	MAY 2007 \$000
Profit for the period	7,823	5,042	3,578	921
Non-cash items:				
Depreciation	3,426	2,315	88	107
Amortisation of intangible assets	499	865	43	7
Utilisation/(recognition) of deferred tax asset	(640)	(322)	(143)	57
Interest expense on financial liabilities	-	85	-	85
Amortisation of put option fair value	2,281	1,200	2,281	1,200
Interest income on financial assets	-	-	-	-
Fair value movement on derivatives	172	(75)	191	(81)
Executive compensation expense	90	28	90	28
Share of surplus retained by associates	1,012	287	-	-
	6,840	4,383	2,550	1,403
Movement in working capital:				
(Increase)/decrease in trade and other receivables	(9,710)	(3,129)	286	1,193
(Decrease)/increase in trade and other payables	5,179	5,930	274	(1,611)
(Decrease)/increase in deferred income	(1)	25	-	-
	(4,532)	2,826	560	(418)
Items classified as investing activities:				
Realised (gain)/loss on sale of property, plant and equipment	27	63	-	4
Realised (gain)/loss on sale of subsidiaries	(166)	(347)	-	-
Dividends received	-	-	(8,738)	(3,825)
Other investment income	(174)	(593)	(155)	(398)
	(313)	(877)	(8,893)	(4,219)
Net cash flows from operating activities	9,818	11,374	(2,205)	(2,313)

30. 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 and Australian based subsidiaries are made in New Zealand dollars (NZD) and Australian dollars (AUD) respectively.

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

The below table details the Group's sensitivity to the increase and decrease in the AUD against the NZD, and the USD 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, the sensitivities are based on historically observed trends.

GROUP	CARRYING AMOUNT \$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		(1.0%)		1.0%		(10.0%)		10.0%	
2008		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
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	(20)	(20)	20	20	-	-	-	-
		(47)	(47)	47	47	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	95
Total		582	582	(576)	(576)	(27)	26	22	22
2007									
Financial assets									
Cash and cash equivalents	3,237	(32)	(32)	32	32	-	-	-	-
Accounts receivable	13,381	-	-	-	-	10	10	(9)	(9)
Interest rate swaps	264	(9)	(9)	9	9	-	-	-	-
		(41)	(41)	41	41	10	10	(9)	(9)
Financial liabilities									
Foreign exchange contracts	(28)	-	-	-	-	-	103	-	(84)
Trade payables	(19,340)	-	-	-	-	(6)	(6)	5	5
Deferred acquisition consideration	(32,571)	169	169	(162)	(162)	-	-	-	-
Borrowings	(17,273)	173	173	(173)	(173)	-	-	-	-
		342	342	(335)	(335)	(6)	97	5	(79)
Total		301	301	(294)	(294)	4	107	(4)	(88)

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL MANAGEMENT RISK CONTINUED

COMPANY	CARRYING AMOUNT \$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		(1.0)		1.0%		(10.0)		10.0%	
2008		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Cash and cash equivalents	391	(4)	(4)	4	4	-	-	-	-
Interest rate swaps	73	(20)	(20)	20	20	-	-	-	-
		(24)	(24)	24	24	-	-	-	-
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)	-	-	-	-
2007									
Financial assets									
Cash and cash equivalents	542	(5)	(5)	5	5	-	-	-	-
Interest rate swaps	264	(9)	(9)	9	9	-	-	-	-
		(14)	(14)	14	14	-	-	-	-
Financial liabilities									
Deferred acquisition consideration	(28,529)	169	169	(162)	(162)	-	-	-	-
Borrowings	(15,920)	159	159	(159)	(159)	-	-	-	-
		328	328	(321)	(321)	-	-	-	-
Total		314	314	(307)	(307)	-	-	-	-

Interest rate swaps

At 31 May 2008 the fixed rates vary from 6.2-8.1% (2007: 6.2-6.3%) and the floating rates are 90 day 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 expires 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			
2008	LESS THAN 1 YEAR \$000	BETWEEN 1 & 5 YEARS \$000	MORE THAN 5 YEARS \$000
Financial liabilities			
Borrowings (including interest payable)	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

2007			
Financial liabilities			
Borrowings (including interest payable)	1,213	20,309	-
Trade and other payables	19,528	2,083	-
Derivative financial instruments	28	-	-
Deferred acquisition consideration	1,042	31,529	-
Total	21,811	53,921	-

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

2007			
Financial liabilities			
Borrowings (including interest payable)	982	18,938	-
Trade and other payables	3,290	234	-
Derivative financial instruments	-	-	-
Deferred acquisition consideration	-	28,529	-
Total	4,272	47,701	-

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL MANAGEMENT RISK CONTINUED

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.

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 2008 and 2007. 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 2008 and 2007 were as follows:

GROUP		
2008	2008	2007
	\$000	\$000
Financial liabilities		
Bank borrowings	37,301	16,724
Other borrowings	45	549
Term liabilities	4,027	5,083
Less cash and cash equivalent	(2,681)	(3,237)
Net Debt	38,692	19,119
Equity	54,155	54,065
Reserves	(31)	-
Total Capital	54,124	54,065
Capital and Net Debt	92,816	73,184
Gearing Ratio	41.7%	26.1%
COMPANY		
2008	2008	2007
	\$000	\$000
Financial liabilities		
Bank borrowings	35,525	15,566
Other borrowings	(7)	336
Term liabilities	-	234
Less cash and cash equivalent	(391)	(542)
Net Debt	35,127	15,594
Equity	54,155	54,065
Reserves	-	-
Total Capital	54,155	54,065
Capital and Net Debt	89,282	69,659
Gearing Ratio	39.3%	22.4%

The put option liability (\$40.0M) 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 59.3% (Company 58.1%).