

Healthcare Market Update

THE HON DR MICHAEL CULLEN RECENTLY DELIVERED HIS PRE-BUDGET SPEECH TO PARLIAMENT. FOLLOWING ARE EXTRACTS FROM DR CULLEN'S SPEECH, AS IT RELATES TO HEALTHCARE SPEND IN THE 2005 BUDGET.

Budget 2005 commits additional resources to health, which will total over \$1.09 billion a year by 2008/09. A good part of this reflects meeting in full the costs of maintaining real, population-adjusted spending for the health and disability sector.

This year's health package also provides for:

- funding for the establishment of the Cancer Control Council
- the roll out of the Primary Health Care Strategy to people aged 18-24, thus reducing first contact fees and pharmaceutical co-payments
- a standard national travel and accommodation policy for those who have high costs from travelling to treatment centres
- further funding for the National Immunisation Register
- the extension of free breast screening to women aged 45-49 and 65-69
- the changes that come into effect on 1 July as the first large step on the way to abolishing asset testing for those assessed as in need of older people's long-term residential care
- contributing towards the cost of the nurses' pay settlement
- increased funding for disability support and aged care services
- funding the increased uptake of the Primary Health Care Strategy
- continued progress on doubling the number of hip and major joint operations
- increasing cataract interventions by 50 per cent
- additional funding to continue the roll out of the Mental Health Blueprint and
- a range of Progressive Party initiatives which have already been announced.

Much of this increase in funding will be spent on New Zealand's senior citizens.

ADDITIONAL COMMENT FROM MINISTER OF HEALTH, HON ANNETTE KING

The government's commitment to effective and responsive health services for all New Zealanders is reflected in new budget spending of \$969.7 million in 2005-06 and \$4.09 billion over the next four years.

Total Vote Health will reach an unprecedented \$9.68 billion in 2005-06.

"The Health Funding Package continues to be an effective method of funding ongoing health expenditure, providing the health sector with the certainty it needs. This budget increases the funding provision for inflationary and demographic pressures by \$387.6 million over the next four years, taking the total to \$2.6 billion.

"All this amounts to a huge investment in fair, equitable and sustainable public health services in New Zealand. Vote Health now accounts for about 20 per cent of all government spending."

Ms King says today's budget also reinforces the government's commitment to new funding for implementing the Mental Health Blueprint, to improve services and support to those with significant mental health needs. This budget provides a further roll-out of the Blueprint to 2008-09 at a cost of \$22 million, maintaining an ongoing increment of \$22 million a year with a total increase of \$222 million over the next four years. "

A number of specific initiatives are funded in this year's budget, including funding in 2005-06 of \$35.5 million (\$142 million over four years) for the establishment of a cancer control council, increased support for hospices, a range of other cancer control initiatives and an extension of free breast screening to all women between aged 45 and 69.

Ms King announced earlier this month \$17.2 million over three years for up to 4000 extra cataract operations a year by 2008, a 50 per cent increase on current numbers.

"That initiative and the unprecedented funding now going into the DHB sector together with the capital programme illustrate the government's determination to provide firstclass hospital facilities and services throughout New Zealand," she says.

Associate Health Minister Pete Hodgson today announced an additional \$59 million in 2005-06 for

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residential disability support services and the provision of assessments.

An additional \$29.6 million will be added to baseline funding for disability support services to cover demographic and inflation related adjustments.

COMMENT FROM ABANO HEALTHCARE

The additional health spend by the Government is good news for both consumers and for Abano Healthcare. Although we are focusing on generating more revenue from the private sector, some of our businesses still hold Government contracts.

The recognition by Government in the budget that health funding needs to grow is excellent. However, we believe there needs to be a wider and more in-depth debate on the best and most sustainable long term model that New Zealand should adopt to fund healthcare services.

Demand is increasing at double-digit rates and this is before the "baby boomers" hit retirement and their high demand years. The devolution of funding to private and insurance-based payment is inevitable and the only question is, how do we transition this without a dislocation of essential services to all sectors of New Zealand society?

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Can you help us reduce costs and protect the environment?

We have many shareholders and every year we spend a significant amount of money and resource printing and posting our annual reports and other documents. We are required by law to automatically mail you our reports, unless you instruct us otherwise.

Abano can now offer you the convenience of receiving future shareholder materials – annual reports, interim reports, shareholder newsletters and news announcements – electronically, rather than in print. We are still required to send you notices of meetings and voting forms by post.

If you register, you will receive an email directing you to the relevant documents on our website, as they are released.

The benefits of email notification include faster and more convenient receipt of shareholder materials, reduction in Abano's printing and postage costs, and a positive impact on the environment.

REGISTRATION IS SIMPLE:

Simply register online at http://www.abano.co.nz/investor/shareholder_services.html. If you are a shareholder and want to register online, you will need your shareholder number. This is printed on the front of the envelope this newsletter arrived in.

Please only register if you require email notification. If notification is NOT received, you will continue to automatically receive printed material by post.

The following documents are available by email rather than post. You can elect to receive any or all of them electronically.

- Abano Healthcare Group Limited Annual Report
- Abano Healthcare Group Limited Interim Report
- Abano Healthcare Group quarterly shareholder newsletter
- Abano Healthcare Group news announcements

ISSUE SIX | JUNE 2005



Making Contact

Abano Shareholder Newsletter

Welcome to issue six of Making Contact, our company newsletter. This newsletter aims to provide you with an update of the company's progress and industry changes, as well as news from each of Abano's operating sectors.

Company Happenings



Alan Clarke
CEO of Abano Healthcare

CONDITIONAL AGREEMENT TO SELL ELDERCARE

Over the past five months, Abano Healthcare Group, the owner of ElderCare, has been reviewing the aged care sector, the aged care market and ElderCare's operations in this market.

This review was put in place to identify the best way for ElderCare to continue to provide excellent care and service, and to ensure Abano was investing in businesses that offered the maximum value for shareholders, and that met or exceeded our cost of capital, therefore enhancing shareholder wealth.

During the review process, the board and management of Abano looked at various options for the business, and concluded that ElderCare needed the support of a desirable third party with access to low cost, long-term funds for investment and growth. This would provide the best opportunity and support for ElderCare and allow it to continue to operate as one of New Zealand's leading aged care providers.

Therefore, the board of Abano undertook to identify an organisation with commitment to the aged care sector, and to maintaining our established high standards of care and the growth of the company.

We were delighted with the interest shown by a number of large, reputable organisations from both Australia and New Zealand. After careful vetting and a competitive tender process, we were pleased to announce our decision to sell ElderCare to Macquarie Bank.

Macquarie believes our facilities, management systems, and most of all, our staff, are world class, and view ElderCare as the cornerstone brand for its entry into the New Zealand aged care market. We understand that Macquarie's intentions are to retain the business as a long-term investment opportunity, and it has indicated no changes are planned to the already successful operation of ElderCare.

Macquarie is an established and successful investor in infrastructure and essential community services. It has identified the aged care sector as an investment area that offers them long-term opportunities. Macquarie has recently acquired Canada's largest aged care provider – Leisureworld – and, through its investment in Retirement Care Australia, a portfolio of Australian aged care facilities from the Salvation Army.

The sale is an important initiative with significant benefits for Abano's shareholders:

- It will allow us to achieve a far higher return on our invested capital across the Group, exceeding our weighted cost of capital for the first time since the

Company Happenings cont...

company began operating in the healthcare sector in 1999;

- It will also facilitate the continuation of our investment in less capital intensive and more profitable healthcare and medical service businesses; and
- It will provide capital funds for the expansion of our remaining three business sectors.

The sale will result in a capital profit of approximately \$10.5 million, and the Board proposes to return a portion of this profit to shareholders in coming months. We are satisfied that this will not affect the Group's ability to take advantage of a number of attractive investment opportunities currently under negotiation.

The sale is expected to enhance the Group's profitability from 2005/06 onwards, and will leave Abano with no debt and \$30 million in cash to invest into new and existing businesses that will potentially generate revenues of around \$40 million. With this in mind, Abano may be in a position to initiate an annual dividend programme by the end of the 2005/06 financial year.

We anticipate settlement will occur around the end of July 2005, following an Abano Healthcare Group shareholders' meeting on Wednesday 6 July 2005 to consider a resolution to approve the sale.

You will shortly receive a notice of special meeting and further explanatory notes on the review process and sale decision.

Approval is required by 75 percent of shareholders entitled to vote and voting at the meeting and therefore, we encourage you or your proxy to attend the meeting and vote in favour of the transaction. You may appoint the chairman as your proxy to vote on your behalf.

Your board believes that this is a positive step for both ElderCare and Abano, and that approval of the sale will benefit all shareholders and assure the long term and profitable future growth of Abano Healthcare Group.

MARKET GUIDANCE FOR YEAR ENDING 31 MAY 2005

The Group has continued making steady progress in recent months, following a soft start to the financial year.

We are looking at a full year result to 31 May 2005 with revenues in the range of \$65.0 million to \$66.0 million, an EBITDA of \$7.2 million to \$7.5 million and a small loss at NPAT.

The benefits of the ElderCare sale and the one-off \$10.5 million profit will be seen in the new financial year.

abano rehabilitation

MODERN LOOK FOR ESTABLISHED BRANDS

Updated logos have been created for Burtons and Health Partners, to increase their visibility in the market and reinforce each business' identity with clients and referrers.

Each of the rehabilitation businesses has a different service offering, and the new logos will help to promote their individual offerings to the market.



Burtons is the largest national healthcare provider for rehabilitation contracts and services in New Zealand. As part of the country's leading listed healthcare and medical services network, Abano Healthcare, our people have the backing of the very best training, administration and organisational expertise available.

We work closely with the injured patient's family, whanau and colleagues as well as other community services to ensure that each patient receives the optimal care and training to get them back on their feet and if possible, working again.

At the same time, we oversee the administration that goes

hand in hand with such a complex task; co-ordinating the different practitioners efficiently to ensure the claimant gets the best treatment, while the customer gets the best service and value.



When someone has suffered a serious or complex injury, it's a time of utter chaos and confusion for all concerned.

For the patient and their loved ones, it's hard to see through the fog of anguish and uncertainty to imagine a full recovery. Harder still, to untangle the chaos and work out what needs to be done to get them back on their feet.

That's where Health Partners comes in.

As New Zealand's largest provider of specialist assessment services, our role is to sort out exactly this kind of problem. A Health Partners assessor will calmly and intelligently assess the patient's injuries, deciding what needs to be done, by whom, and when.

Ensuring that every case results in a precise and accurate assessment and above all, a speedy recovery for the patient.

abano dental

NEW DENTAL NETWORK UNVEILED FOR ABANO DENTAL



A new dental network was announced in early May, at a launch function at Auckland's Sky City convention centre. The new network – Lumino Dental Care – replaces the Geddes Dental Group, purchased by Abano Healthcare in November 2002.

The name Lumino is short for Luminoso, which means bright in Italian, and portrays brightness, brilliance and radiance.

Lumino will operate out of the existing clinic locations, but with a whole new look, new business initiatives and high impact marketing tactics. The focus for Lumino is on private patients, and from the end of June, Community Service Cards will no longer be accepted.

To launch the new network, an exclusive marketing opportunity has been negotiated and Lumino is now the only dental brand in the country to reward its patients for their custom by offering their customers New Zealand's most widely recognised and sophisticated loyalty programme – FlyBuys.

Our aim is to make the Lumino brand a household name across the country, and we are expanding the network with the acquisition of two new dental practices – in Auckland and Dargaville – with a number of other potential acquisitions under negotiation in Waikato, Wellington and Christchurch.

abano aged care

CELEBRATING LIFE AT ELDERCARE



Staff and residents across the country were delighted with the news that Macquarie Bank was expected to be the new owner of ElderCare.

The announcement was made to senior managers at a conference in Auckland, who in turn, broke the good news to other staff and residents.

General manager, Craig Percy, said: "The sale to Macquarie

is a great step for the business, and a reflection of the commitment and dedication of all our staff, and the wonderful systems and programmes we have in place".

One of these programmes is LIFE, the exclusive wellbeing programme that was recently launched across the country. The innovative programme looks at improving quality of life for older people through physical exercise and goal setting, and has had amazing results, with hundreds of residents now signed up.

abano diagnostic

WOMB WITH A VIEW



A 40 percent shareholding in Ascot Radiology was announced by Abano Healthcare last year, and was settled in February 2005. The radiology business provides a total imaging service, including the latest 4D obstetric scans, which provide parents with a live motion picture of their unborn baby.

4D ultrasound represents the difference between a video and a still photograph, with revolutionary technology continually updating a 3D image of an unborn baby and providing a live action view of baby's movements and behaviour.

From images of a baby sucking its thumb, waving its hands or simply smiling, the 4D ultrasound provides a media picture for expectant parents that previous generations could not even contemplate.

The startling clear images not only provide parents with a priceless keepsake, but also enhance visualisations of possible foetal abnormalities picked up during the recommended first and second trimester scans by conventional 2D imaging, such as cleft lip or club foot.

New foetal scanning techniques, such as the nasal bone scan, are also benefited by the greater details and clarity provided by the 4D machine. The nasal bone scan is new to the country, with the lack of a nasal bone a strong indicator of a possible chromosomal disorder, and a far more accurate assessment than the current nuchal translucency thickness measurement.



ABANO BEHIND SECOND LARGEST SINGLE SITE LAB IN NZ



Abano Diagnostics recently announced that it was in discussions with Sonic Healthcare Limited to merge its Wellington community pathology practice and Sonic's Hutt Valley based community practice, Valley Diagnostics.

Local District Health Boards have indicated that they would like to see a rationalisation of the laboratory services in the region, and the merger of the two community practices would provide significant advantages through efficiencies that would not otherwise be achievable.

The initiative would establish New Zealand's second largest single site community pathology practice, and provide an important back up facility for the capital city, to complement the public sector's two hospital-based in-patient laboratories in the event of a catastrophic civil emergency such as an earthquake.

The initiative is an exciting one for Abano Diagnostics, allowing it to operate its business in conjunction with one of the world's largest medical diagnostics companies. Sonic Healthcare now has pathology operations in many countries and a market capitalisation of over A\$2 billion.

A joint tender for the community services in the region will be submitted to both the Hutt Valley and Capital Coast DHBs later this year. If the tender is accepted, then Abano and Sonic will progress with the work of integrating their operations.

Both practices have an established history of service and cooperation in their local communities, and we believe merged entity will formalise those relationships and allow a continuation of the excellent services which both provide.