

# Making Contact

ABANO SHAREHOLDER NEWSLETTER

ISSUE SEVENTEEN DECEMBER 2010

## Company Happenings //

The first half of the 2011 financial year has been one of ongoing change for the Group, with the sale of our investment in National Hearing Care Group (NHC), approval to return \$27.3 million of capital to our shareholders and the announcement that we will be investing in a \$5 million PET/CT scanning service.

We were pleased to realise a one off profit of approximately NZ\$11 million when we sold our jointly held shareholding in NHC for gross proceeds of A\$58 million.

NHC is the Australasian based audiology company which acquired Bay Audiology Limited, our New Zealand audiology business, in November 2009. As part of this transaction, Abano and interests associated with Bay's founder, Peter Hutson, acquired a shareholding in NHC, on a 50:50 basis, for a joint investment of NZ\$30 million, of which Abano's share was \$15 million.

In September 2010, NHC announced the sale of 100% of its shares to Amplifon Group, a multi-national hearing aid retailer, for a total consideration of A\$460 million, on a debt free basis. After NHC debt repayment, sale costs and closing adjustments, Abano has received approximately NZ\$28 million in cash. Settlement occurred 10 December 2010 and following shareholder and final High Court approval, \$27.3 million will be returned to shareholders through a court sanctioned, 1 in 4 share cancellation at \$5.23 per share. Payment to shareholders is planned for 20 January 2011.

Although this sale will provide Abano with an unexpected one-off profit, it is important to note that from the settlement date onwards, we will no longer receive the equity accounted profit contribution from this investment.

Looking forward, Abano has sufficient funding facilities and capital to continue investing into our growth businesses, being our dental networks in New Zealand and Australia, our audiology networks in Australia and Asia and our radiology businesses in New Zealand.



## Breaking News //

### **AOTEA PATHOLOGY SIGNS THREE YEAR \$75 MILLION COMMUNITY PATHOLOGY CONTRACT EXTENSION.**

We are very pleased to announce that Aotea Pathology has extended its existing five year community pathology contract with the Hutt Valley and Capital and Coast DHBs for a further three years.

The contract extension is worth in excess of \$75 million and also reflects the changes in Government policy which has seen a moratorium on patient charges for tests ordered by private specialists.

We are delighted with this outcome, which will see Aotea Pathology continue its 78 year history of providing a professional, high quality and seamless medical service for people in the wider Wellington area.



Strong growth, especially in dental, has continued into the 2011 financial year. Since 1 June 2010, Lumino The Dentists has acquired a further four dental practices in New Zealand, taking the network to 54 practices nationwide. In Australia, Dental Partners has acquired seven practices since 1 June 2010 and now has 33 practices based predominantly in New South Wales, ACT, Victoria and Queensland.

Our audiology operations in Australia and Asia have also grown and at our annual meeting we announced our entry into Taiwan through the acquisition of a small audiology chain, Team-Bell. This investment will help build our understanding of how to operate in this very large, traditional Chinese market.

We have also taken the decision to accelerate the relocation of our regional audiology support offices. Firstly, from Singapore to Hong Kong to allow us to have a refreshed senior team closer to the Chinese markets of Taiwan and Hong Kong and secondly, from Brisbane to Sydney, to be closer to the New South Wales and Victoria markets. These changes will have a one-off cost in the short term but position us well for long term growth.

Audiology in Australia and Asia will grow primarily through greenfield developments and therefore this investment in growth is expensed through the Profit and Loss account and not capitalised through the balance sheet. As previously advised, we do not expect any significant profit contribution from audiology for at least three to five years.

We are pleased to confirm that we are proceeding with a \$5 million investment into a new PET/CT scanning service at Ascot Radiology. This is the leading diagnostic tool in identifying and fighting cancer and it is mainly used to determine the appropriate form of treatment for cancer patients and whether major surgery is required.

Ascot Radiology will be only the second centre in Auckland to offer this PET/CT technology, in a city that has a population of over 1.4 million. The PET/CT scanner is an extremely valuable diagnostic tool and an important addition to the suite of services that Ascot offers. It is investments such as these that

ensure our radiologists remain at the leading edge of the professional services they offer to referrers and clients.

There have been a number of recent accolades for your company. We are delighted that Abano has been honoured again at the Deloitte/Management Magazine Top 200 Awards. Alison Paterson, our chairman, was the winner of the Chairman of the Year Award and I was nominated as a finalist for Executive of the Year. These accolades compliment the Award we won in 2008 for the Best Growth Strategy and in 2009 for Company of the Year. Our investor website was also recently named in the top ten of the NZX 50 in the Business Investor Website Awards 2010.

Our chairman, Alison Paterson, advised at our annual meeting that our second half year financial performance would be down on our first half year. The Christmas and Easter holidays both fall in the second half and referrals traditionally drop during these times. In addition, the economic recovery in both Australia and New Zealand is slow and we believe that some of our discretionary healthcare spend areas will continue to be affected. The ongoing impact of ACC policy changes and a decision to accelerate the relocation of our regional audiology offices in Australia and Asia will also affect the result.

Nevertheless, Abano has an established track record of performance, delivery and a strong strategic plan for future growth and development. We are in a growth mode and will continue investing in and strengthening our offshore management teams and offices. While this will have a short term cost, it will provide profitable benefits in the medium to long term. We will continue to be a leading healthcare investor in the Australasian and Asian region and the partner of choice for clinicians under our proven Co-invest and Build strategy.

I would like to take this opportunity to wish all our readers, shareholders, staff and your families a happy holiday and Christmas break, and every success for the 2011 year.

## // KEY DATES

**Settlement of NHC sale**  
10 December 2010

**Record date for share cancellation**  
12 January 2011

**Record date for interim dividend**  
13 January 2011

**Payment date for share cancellation and interim dividend**  
20 January 2011

**Release of interim report**  
By late February 2011

## // ANNUAL MEETING

**The Abano Healthcare Group annual meeting of shareholders was held on Tuesday 30 November 2010 at Ellerslie Events Centre in Auckland. Shareholders at the meeting passed all resolutions:**

- Reappointment of PricewaterhouseCoopers as auditors of the Company
- Re-election of Mr Trevor Janes as a director of the Company
- Re-election of Mr Peter Hutson as a director of the Company
- Authorisation of an increase in the total amount of directors' remuneration payable per annum from \$307,500 to \$345,000 for each financial year
- Approval of the return of capital to shareholders through a 1 in 4 share cancellation (99.6% voted in favour)

# AUDIOLOGY // UPDATE

## // BAY INTERNATIONAL

### NEW MARKETS, NEW STAFF AND NEW OFFICES AT BAY INTERNATIONAL

**Hoan-geng kong-lim! Welcome! With existing audiology businesses in Hong Kong, Malaysia and Singapore, Abano has recently expanded into its fourth Asian market, with the acquisition of a small audiology chain in Taiwan.**

Like all of Abano's Asian audiology businesses, the opportunity in Taiwan was identified following extensive market visits by Abano directors, Peter Hutson and Danny Chan. Building a presence in each market takes time and Abano has a measured entry and expansion strategy in place. This ensures there is an in-depth understanding of each market's differences and similarities and a well considered strategy in place to meet the retail habits and needs of the different populations in these fast growing economies.

To support the growth of the Asian audiology group, a new regional management structure has been put in place, including the appointment of Kenneth Kam as regional general manager. Kenneth will be moving the regional office from Singapore to Hong Kong to be closer to Bay's other Asian businesses and appointing a team of senior executives.

In Australia, the head office is also moving from Brisbane to Sydney as the expansion of the Australian audiology business migrates south. Australian manager, Andrew Campbell, is also making several new senior appointments with the addition of an operations manager, financial controller and HR manager to the team.

There are excellent innovative technologies being put in place and greenfield stores being developed. However, building the Asian audiology group will take time and it will be between three to five years before there are any material contributions.



# DENTAL // UPDATE

## // LUMINO THE DENTISTS (NZ)

### **LUMINO THE DENTISTS IS ABANO'S BIGGEST EMPLOYER**

**Lumino The Dentists is the biggest employer within the Abano portfolio with more than 450 staff, including over 150 dentists, 134 dental assistants, 45 hygienists, 23 other clinical staff and over 100 support and management staff.**

The Lumino clinical base has expanded in recent years with the recruitment of specialist orthodontists, a paediatric dentist, endodontist and specialised dental laboratory staff. An increasing number of Lumino's dentists also have an area of special expertise, from endodontics to implants and cosmetic dentistry to orthodontics, increasing the breadth of services on offer.

One way in which Lumino attracts and retains the best in the business is by providing a superior work environment and rewarding its staff.

Lumino Advantage is a unique benefits programme which seeks to align group, practice and individual performance with Lumino's strategic direction and goals and to aid in retention of staff. Benefits are tailored according to roles within the business and are structured around three benefits packages – Individual Performance Benefits (including salary reviews, commission and bonus structures), Practice Performance Benefits (including profit share for Lead Dentists and practice bonus programme) and Additional Benefits (such as allowances for training, membership of professional bodies, reward for long service, contribution to medical and wellness programmes and so on).

Lumino also offers its clinicians a number of ongoing Career Development Opportunities including the annual Clinicians Conference –

a weekend of learning and relaxation with colleagues – and Lumino Clinical Seminars. Support staff also receive regular training and access to seminars such as customer service training and the highly regarded Developing Practice Leaders programme.

The focus on the retention and rewarding of staff and the creation of a superior work environment now means that Lumino has a significant pipeline of dentists and other clinicians wanting to work in the group. The business is well positioned to cater for increases in demand, provision of additional services, provision of extra chairs and the succession of Lead Dentists as they retire or move on.

Pleasingly, the majority of Lead Dentists who have come out of their earnout period have remained working within the business.



The team at Lumino The Dentists – Mt Eden

Lumino also has an active recruitment process and recruits dentists from overseas (USA, UK, South Africa) and New Zealand, increasing the overall number of dentists in the Lumino group and replacing exiting dentists.

# DIAGNOSTICS // UPDATE

## // DENTAL PARTNERS (AUSTRALIA)



### THE TOOTH FAIRIES DRAGON BOAT TEAM

**Part of the culture at Dental Partners practices, is giving back to the communities they work in.**

Greenwood Dental in Sydney recently participated in the Dragons Abreast Festival, a charitable event which supports breast cancer patients in their transition back into a full and active life.

The Greenwood Dental team set a goal to raise A\$3,000 in sponsorship. When that goal was easily reached, the finish line moved out to A\$5,000. In the end, thanks to the support and help of family, friends, suppliers and clients, a total of A\$10,000 was raised by the team. This mammoth effort earned the team the Top Fundraising team shield, which they added to with the ribbon for the Best Dressed team.

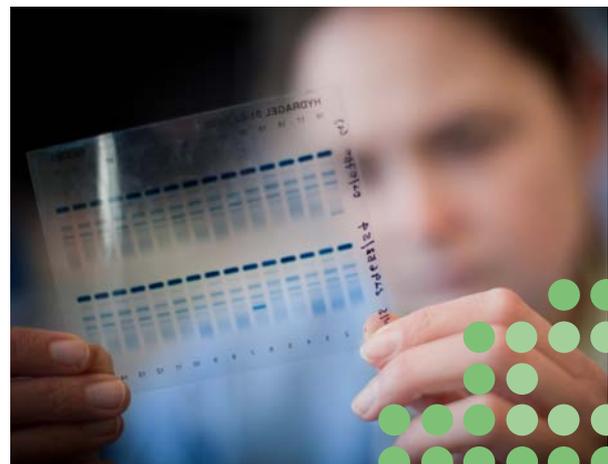
## // PATHOLOGY

**Aotea Pathology has partnered up with two leading medical software companies to create an Electronic Ordering System which will make the flow of medical information from your doctor to the laboratory quicker and simpler.**

Currently, when a patient needs a laboratory test, their doctor gives them a form with their information on it, which is given to the collection room staff. The information is then manually entered into the computer system at the collection rooms or later at the laboratory.

The electronic system will remove the need for manual data entry at Aotea Pathology. Doctors will simply enter the patient information and the tests required into an electronic form, a copy of which goes directly to the laboratory via a secure link. The patient receives a print-out of the form, complete with a barcode, to take to the collection room. Once at the rooms, the patient simply hands over the form, the barcode is scanned and their information appears on the computer.

Many more enhancements are planned for the system, which will result in a more streamlined service for both patients and doctors. A trial of the system began in November and a wider roll out is planned in 2011.



# DIAGNOSTICS // UPDATE

## // RADIOLOGY

### **ASCOT RADIOLOGY INVESTS INTO LEADING EDGE PET/CT SCANNER**

**Accuracy, timeliness and precision of diagnosis and treatment are top of the wish list for any person diagnosed with cancer. And from early 2011, Ascot Radiology will be helping patients and their doctors in the fight against cancer, with the launch of a new PET/CT scanning service.**

PET/CT scanning is the most advanced diagnostic tool for identifying and fighting cancer, helping physicians determine the most appropriate form of treatment. It can help avoid unnecessary and invasive surgery or provide reassurance that more radical treatment is the most appropriate option, as well as monitor the outcomes from chemotherapy and radiotherapy.

On a simple CT image, the physician sees the body's anatomic structure, similar to how a map shows the outlines of counties or states. Tumours use much more glucose than other body tissue and on a PET

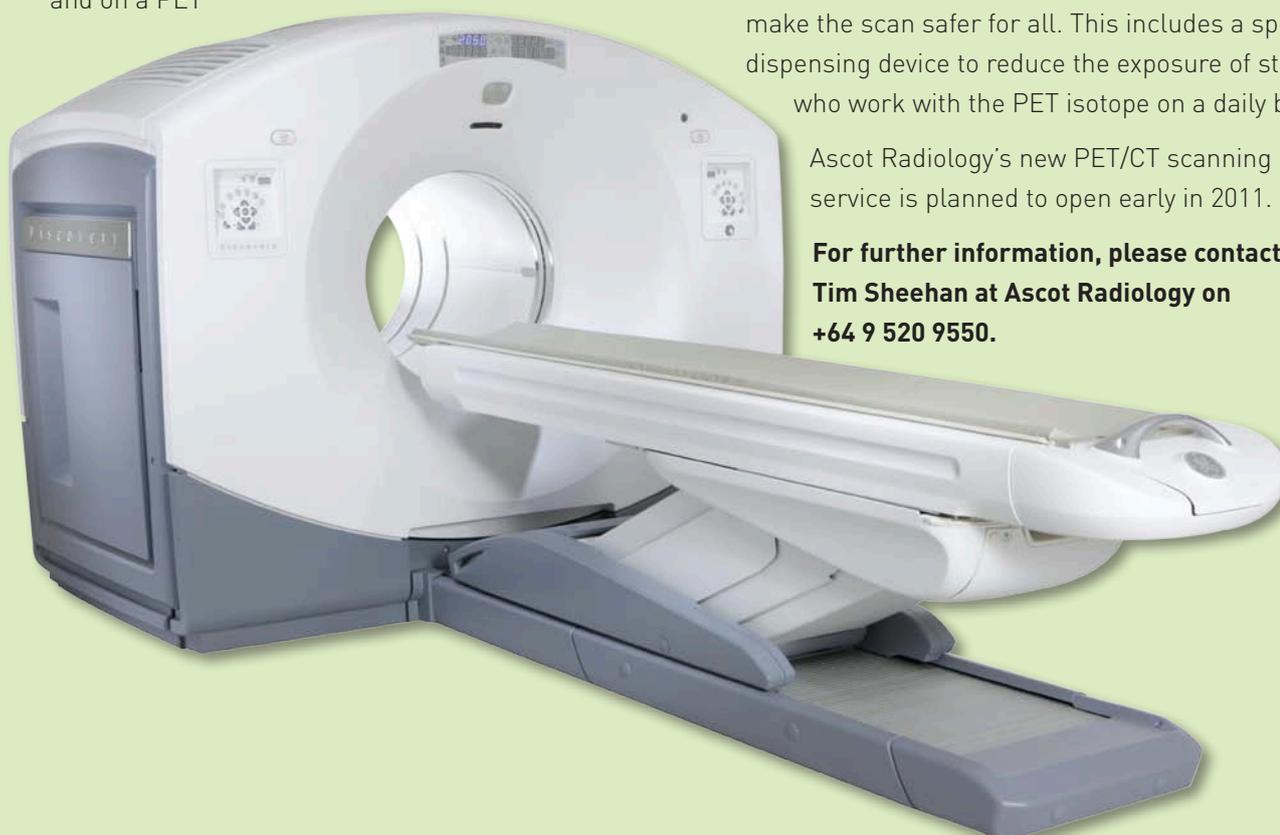
image, the physician can see where the body is using glucose – like a satellite weather image shows areas of intense weather activity. When these two images are overlaid into a PET/CT image, a complete picture of the patient's health is revealed, providing doctors with significantly improved cancer detection and localisation.

Radiation dose is a concern with PET/CT scanning but thanks to Ascot Radiology's state of the art acquisition, specific new reconstruction technology greatly reduces the radiation dose of the CT scan, resulting in the same radiation dose for a PET/CT as for a conventional CT scan alone. This is a unique and important feature of the Ascot Radiology scanner and not available anywhere else in Auckland. Additionally the image quality is greatly improved by "Time of Flight" technology, a recent development, and motion correction technology to reduce the effects of the patient's breathing movements on the image.

Ascot has also invested in additional equipment to make the scan safer for all. This includes a special dispensing device to reduce the exposure of staff who work with the PET isotope on a daily basis.

Ascot Radiology's new PET/CT scanning service is planned to open early in 2011.

**For further information, please contact Tim Sheehan at Ascot Radiology on +64 9 520 9550.**



# REHABILITATION // UPDATE

## // ORTHOTICS

### ORTHOTICS GROUP SPREADS ITS WINGS TO SOUTH ISLAND

**In March 2010, Abano acquired Orthotics South Island, one of the leading orthotic providers in the region. Orthotics South Island is located in Christchurch, close to the hospital and employs 13 people including three clinical orthotists.**

The business was initially founded in 1989 by orthotist Paul Ward, who was working at Christchurch Hospital and set up Orthotics South Island to meet growing demand from private clients.

In 1993, Orthotics South Island purchased the orthotics department of the Christchurch hospital and, since this time, the Canterbury DHB orthotics contract has been held by Paul and his team. In addition, they also provide some clinical services to both the South Canterbury and West Coast DHBs.

Following the acquisition by Abano, Paul joined the Orthotics Centre (NZ) Ltd board and has continued in his role in the South Island business, looking for opportunities to expand the services on offer in the region.

Married and with two teenage children, Paul has lived in Christchurch all his life. He started work with the North Canterbury Health Board when he was 18 years old, and graduated as an Orthotist a few years later, in 1981. Paul is a foundation member of the Christchurch Hospital 'Orthotics Working Group Committee' but also has an active life outside of work including being a devoted follower of Canterbury and Crusaders rugby.



## // REHABILITATION

### MEET THE TEAM: JENNY MICHAELI CLINICAL REHABILITATION ADVISOR

Jenny is one of the more recent additions to the Abano Rehabilitation team and, although based in the Auckland support office, spends nearly all of her time visiting the different centres. Her role involves training and upskilling the clinical teams and supporting the managers, to ensure that Abano Rehabilitation provides the best quality care.

Jenny's resume reads a bit like a travel guide. Born and educated in South Africa, Jenny worked in an acute mental health unit for six months following graduation before moving to live and work in Israel for nine years.

Here she received first-hand experience in rehabilitation, working closely with soldiers injured in fighting. Moving to work on a kibbutz and then in a kindergarten for cerebral palsy sufferers, Jenny ended up moving to Tel Aviv to work in one of the world's leading neuro rehabilitation units, becoming the head Occupational Therapist and staying there for seven years.

Returning to South Africa, Jenny worked at Johannesburg Hospital over the next ten years in the neurosurgery, neurology, plastic surgery and orthopaedics units as well as in the trauma ICU. She was then approached to establish an OT department in a private 80 bed acute rehab hospital in Johannesburg and was head of that department until immigrating with her two children to New Zealand in 2003.

Jenny has worked in the rehabilitation sector since arriving in New Zealand, both in house as well as out in the community, where she specialised in care of concussion patients. She has now been part of the Abano Rehabilitation team for six months, sharing her knowledge and expertise and working together with staff to achieve the best outcomes for Abano's clients.



## FAQ // FROM THE 2010 ANNUAL INVESTOR ROADSHOW

In October this year, Alan Clarke and Richard Keys of Abano completed the annual investor roadshow. They met more than 160 investors, brokers and analysts in seven cities and welcomed the opportunity to share their views for the future of the Group. There were a number of common questions so we have taken this opportunity to answer those questions and more in this newsletter.

**Q. What areas has Abano identified for growth and investment?**

A. Audiology in Asia and Australia, dental in New Zealand and Australia and radiology in New Zealand.

**Q. The New Zealand audiology business has been sold. How will you replace the earnings from the business?**

A. When we sold our New Zealand audiology business, we retained our Australian and Asian businesses. Our audiology business revenues in these regions are growing at over 30% pa but we are re-investing operating earnings and using our available debt funding to open new greenfield sites.

It is also important to note that returns from Bay International are now not included in the consolidated accounts. Instead, our 50% share of Bay International's Net Profit After Tax is equity accounted, so its revenue and EBITDA contributions will not be seen in the consolidated Group results going forward. We have also indicated that while audiology in Australia and Asia will grow strongly we do not expect any significant profit contribution for at least three to five more years.

If you exclude the contribution from audiology, our other businesses in the dental, diagnostics and rehabilitation sectors have all grown strongly over the past few years. Their revenues have increased from just over \$50 million in 2006 to around \$160 million in 2010 and their EBITDA contribution has grown from around \$5 million in 2006 to over \$20 million in 2010.

We are comfortable that this growth will continue.

**Q. How competitive is the audiology market in Australia and Asia? Amplifon (the purchasers of National Hearing Care) have stated they are targeting growth into Asia. Is this a concern?**

A. Most Asian countries have a very low penetration rate (the percentage of people with hearing impairment who have sought hearing help and have a hearing aid). We believe that competition in these markets will help stimulate demand and increase the penetration rate in these very large markets.

In Australia, there are a number of competing players. Bay Audio is in the top five audiology businesses in Australia and we have a strong brand and retail presence.

**Q. How competitive are the dental markets in New Zealand and Australia? Are there many other large dental corporates like the Abano businesses?**

A. Lumino The Dentists is New Zealand's largest private dental network, by far. The challenge in New Zealand is to continue to educate consumers on the importance of regular dental checkups and ongoing dental care.

There are several large dental corporates in Australia, of which Abano's Dental Partners is one. This is a reasonably recent business model in the dental sector and the growth in the number of reputable players is making it more acceptable with dentists. The increased marketing power of larger corporates is also helping with consumer education and increasing the overall market size.

**Q. How many dentists are getting to the end of their earnout period and resigning or are they staying with the business?**

A. Acquisitions are structured to retain the founding dentists through continued service contracts, settlement retentions, long term profit shares and earn out periods of between four to six years with normal restraint of trade provisions. Many of these dentists choose to remain with Lumino The Dentists following the end of their earn out period, with some planned retirements and departures. Since mid-2007, there have been only two unplanned departures from founding dentists. All departing lead dentists and associates have been replaced through Lumino's comprehensive recruitment and succession planning process.

**Q. How many new dentists are being employed each year?**

A. Abano has a large pipeline of dentists looking to work in our dental businesses, allowing us to easily recruit dentists to meet growing demand or to fill vacant positions. As well as acquisition, a part of our growth strategy is to increase capacity in existing clinics by adding more chairs and employing new dentists. Since mid-2007, 33 dentists have been recruited to replace departing dentists and to increase the number of chairs in existing practices.

**Q. Where is Abano's revenue being generated?**

A. As Abano's international footprint increases, so does the percentage of revenue generated off shore. We now have approximately 40% of our revenue sourced from outside of New Zealand and we expect this to rise as we continue our international expansion.