

Making Contact

ABANO SHAREHOLDER NEWSLETTER

ISSUE ELEVEN DECEMBER 2007

Company Happenings

Alison Paterson Chairman



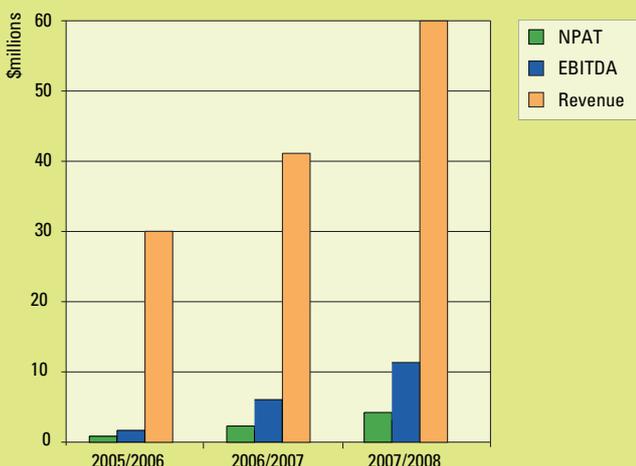
ABANO HALF YEAR RESULTS ABOVE FORECAST

Abano has released its unaudited half year results for the six months to 30 November 2007, which are above forecast and indicate another record performance in the period. The improved performance is due to growth in all sectors.

The 2008 interim result, based on unaudited management accounts, shows the following:

- Revenues for the six months ended 30 November 2007 of \$59.2 million, up over 42% on the \$41.4 million posted the first six months of the 2007 financial year;
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is \$11.0 million, up over 74% on the \$6.3 million posted in the previous corresponding six months; and
- Net Profit After Tax (NPAT) of \$3.8 million, an increase of over 35% on the 2007 interim result of \$2.8 million.

FOR SIX MONTHS ENDED 30 NOVEMBER 2007



This is pleasing progress with the first half performance above forecast and expectations.

This improved performance is due to growth in all sectors, in addition to the company's announced acquisition and expansion programme tracking ahead of plan. The full impact of these acquisitions, along with the improved operational performance, will be seen in the second half of this financial year.

Although Abano traditionally enjoys a stronger first half year (as the second half year incorporates the low referral holiday periods around Christmas, New Year and Easter), this year we are expecting a stronger second half performance, compared to the excellent first half result.

This is due to a combination of new long term fixed income contracts spread evenly over 12 months, as in the case of the pathology business, and the accelerating organic and acquisitions growth programme, which means that the full contribution of these initiatives will not be seen until the second half of this financial year.

The results for the full year are now expected to be above the previous market guidance. The board will closely monitor the company's performance through the next two months and updated market guidance will be provided in the New Year.

Abano has met or exceeded all guidance that it has provided to the market over recent years, and the board and management are confident of meeting all projections that have been released by Abano,

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Company Happenings // CONT

including those used in the Ferrier Hodgson Independent Expert report. This has again been demonstrated by the strength of the current half year results.

The half year report will be available in late February 2008.

DIVIDEND PAYMENT

Based on the current dividend policy, which commenced with a maiden dividend paid in August 2007, the board has signalled its intention to pay an interim dividend of 8.5 cents per share in January 2008. This interim dividend can only be declared by the board once the current Masthead offer expires, unless Masthead otherwise agrees. The reason is the Masthead offer precludes Abano from declaring a dividend during the offer period, and if one is declared, it would breach one of the conditions Masthead has imposed on the company.

As previously advised, Abano has operational cash flow and banking facilities which are sufficient for the planned capital expenditure and acquisition growth programme for the foreseeable future, including the planned dividend programme.

An early payment of the 2008 dividend is the prudent course of action to protect shareholders' value by distributing some of the imputation credits in a timely manner.

Based on the current full year NPAT guidance of \$7.1 million, the total 2008 dividend would be 41% higher than the 2007 dividend. In addition, a higher dividend is likely to be paid should a full offer be made for the company or after a year-end NPAT performance of greater than \$7.1 million.

The Abano board has given a united and clear response to a partial offer from Mark Stewart's Masthead. The board is relatively fresh and has shown great confidence in chief executive Alan Clarke's growth strategy."

"The key features of the Abano board are that it has a good chairman, the directors work well together and they have full confidence in Alan Clarke, managing director."

Milford Asset Management, The Milford Report
November 2007

ABANO UPDATE ON DUE DILIGENCE PROCESS //

The board of Abano Healthcare Group Limited has advised the market that it remains in discussions with several parties which have expressed interest in the company. On 16 November 2007, for its own reasons, one party which was conducting due diligence, withdrew from the process. The board notes that party's interest was primarily in the New Zealand audiology sector, its proposal was incomplete and conditional, with a suggested offer price at the bottom end of the Ferrier Hodgson valuation range.

A number of separate and unrelated parties continue to express interest in Abano. The board understands that with the Masthead conditional partial offer shortly due to expire, these parties have chosen to await the outcome of the offer before deciding whether and/or how to proceed.

The board has reconfirmed its recommendation to shareholders to reject the Masthead offer. The board's view on, and recommendation to reject, the Masthead offer is made irrespective of the existence or outcome of other parties' interest.

The board has previously indicated that it believes that the benefits of the current strategy are just starting to emerge and higher values than indicated in the Independent Appraisal Report will be achievable if the company is successful in implementing its strategic plans and capitalising on the market opportunities it perceives.

The New Zealand Shareholders Association holds proxies on behalf of many shareholders and is very supportive of Abano's strategy and governance."

"We were disappointed that Masthead declined to speak or respond to shareholders' questions at the recent Abano annual meeting. This does not give minority shareholders much confidence in the level of dialogue they can expect from Masthead, should the Masthead partial takeover offer succeed."

NZ Shareholders Association, November 2007

SHAREHOLDER REPORTING //

In line with new regulations which came into effect in June 2007, listed companies are no longer required to automatically mail shareholders a printed copy of annual or interim reports.

Please note however, that we will be sending you a printed copy of our half year report in February 2008 as usual. You will also be able to view or download it online.

You can also register to receive the latest company announcements by email, as they are released, including media releases, our regular newsletter and financial results. To subscribe, please register online at www.abanohealthcare.co.nz/subscribetonews.

ABANO ANNUAL MEETING // An emerging New Zealand business success story



Alan Clarke
Managing Director

The Abano annual meeting was held on 9 November 2007 and was a great opportunity for us to meet with shareholders who turned out to hear from management and the board about Abano's progress and future strategy.

A summary of the proceedings was sent to shareholders following the meeting, with full copies of the speeches and presentations available on our website www.abano.co.nz.

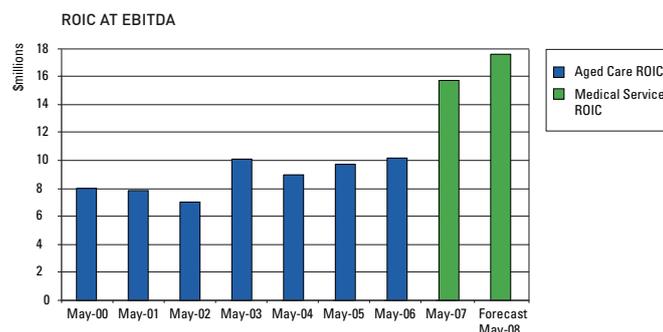
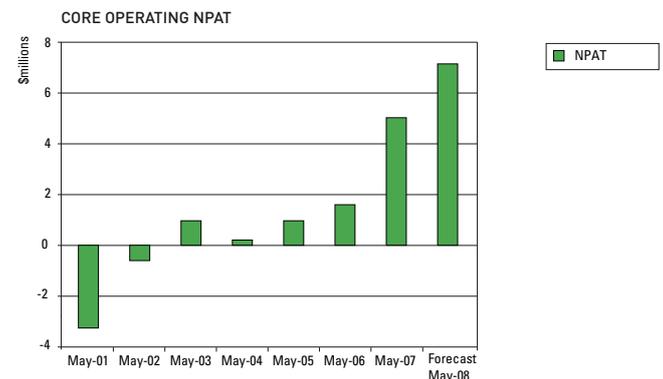
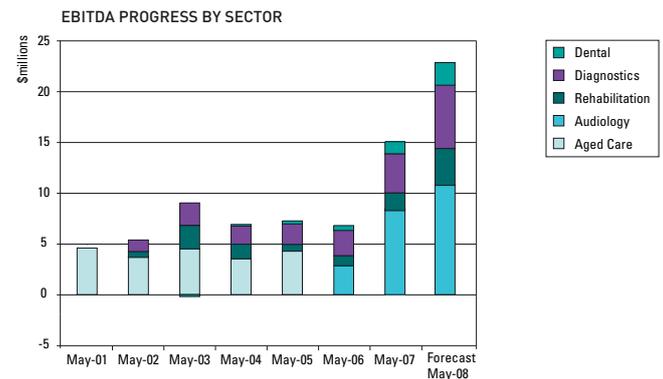
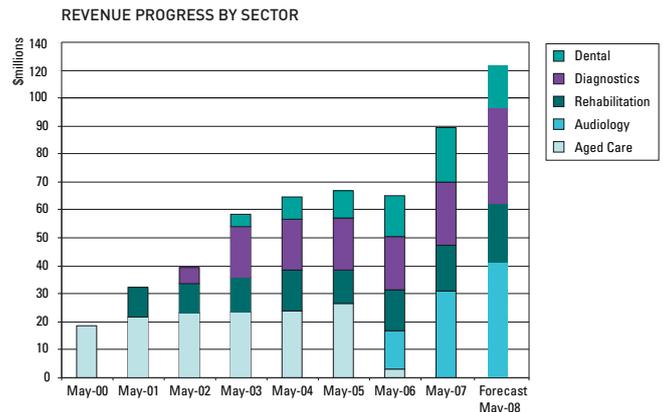
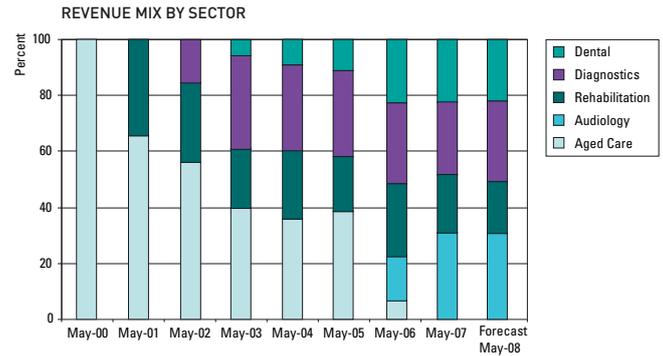
Shareholders at the meeting were told that all businesses across Abano are tracking either at or ahead of forecasts for the financial year.

Shareholders at the meeting were told that all businesses across Abano are tracking either at or ahead of forecasts for the financial year.

Fee increases, new ACC and DHB contracts and improved business processes and margins have boosted performance for our Orthotics, Pathology and Rehabilitation businesses. In our grow and expand businesses of Dental, Audiology and Radiology, the benefits from the growth and acquisition strategies in place, in addition to the improved margins have helped increase the bottom line returns.

Already, in the first six months of the 2008 financial year, a number of acquisitions and new clinic openings have been made, including:

- Lumino Dental – the acquisition of seven new clinics in the Auckland CBD, Auckland's North Shore, Hamilton, Masterton, Wellington and Oamaru, taking the total network to 30 clinics around New Zealand;
- Bay Audiology (New Zealand) – the opening of two new clinics in Orewa and Napier, the acquisition of an Invercargill practice and the transition of a fourth clinic from visiting to full time. A further two clinics are due to open by January 2008, which will take the Bay Audiology to 46 branches;
- Bay Audio (Australia) – the Bay Audio network in Australia has expanded from the initial four clinics in January 2007, to 19 clinics in the Queensland region, including the recently announced acquisition of Advanced Hearing Specialists in the Gold Coast;
- Ascot Radiology – work is underway on a new state of the art imaging clinic at the new Ascot Central building in Auckland, due to open in April 2008.





AUDIOLOGY // UPDATE

// BAY AUDIOLOGY

AUSTRALIAN BRAND CONTINUES TO GROW

Bay Audiology entered the Australian market in early 2007, with the acquisition of four clinics in Brisbane. The network has since expanded to 19 clinics in the Queensland region, including the recent acquisition of The Advanced Hearing Specialists.

The Advanced Hearing Specialists operates two permanent clinic and four visiting clinics in the Gold Coast area, and is run by experienced and reputable audiometrists, Aaron Southwell and Hunter Reed.

The acquisition of The Advanced Hearing Specialists in Queensland will increase Bay Audio's current year Australian revenue, contributing approximately NZ\$2 million to the turnover of Bay Audio, and sets the scene for the rollout of the Bay Audio model into other major Australian states.

The audiology business is impressive. It is very well run by experienced professionals who have significant experience in the profession, industry and in international markets. In particular, we have a depth of operational experience in the Australian market, through our senior Australian audiologists including Bay Audio's Australian general manager, Andrew Campbell, as well as Bay's executive chairman, Peter Hutson, who lived, practiced and owned audiology clinics in Australia in the early 1990's.

Bay Audio's Australian strategy is to establish a critical mass of profitable clinics in Queensland, through both acquisition as well as the setting up of new clinics. This approach, together with setting up the infrastructure to support the brand for expansion across other Australian states, is a low-risk and low-cost strategy, but with significant potential returns both financially and in the ability to leverage the Bay Audiology platform.

We have the management ability, the market insights and experience and the support of major multinational audiology manufacturers behind this current expansion programme. So far we have invested in commercial infrastructure and a very well developed marketing campaign, resulting in one off investment costs to date, including this acquisition, of approximately \$4.5 million.

The acquisition of this well recognised audiology practice gives Bay Audio an immediate geographical presence on the Gold Coast, and extends the business' footprint in Queensland.

ASIA REGIONAL OPPORTUNITY

Over the past few months, Bay Audiology has been investigating opportunities in a number of Asian countries. These countries have populations with high individual wealth, prosperous societies and growing annual household incomes.

Most countries, have a one in six proportion of people with hearing impairment. In New Zealand and Australia, approximately 25% to 30% of these people are treated, however, in Asia, this treatment rate is in the low single digits.

With limited existing providers and large populations, we believe these countries represent a significant market opportunity for the professional delivery of audiology services.

We are being encouraged to enter these markets by major international manufacturers of hearing devices, who see advantages in partnering with retail specialists such as Bay. These partnerships have the potential to significantly mitigate our risks in entering these markets. Conversely, the potential in these markets, now and over time, is huge.



DENTAL // UPDATE

// LUMINO DENTAL

LUMINO TAKES BIGGER BITE OF NZ DENTAL MARKET

Lumino Dental is New Zealand’s largest private dental network with 30 clinics from Whangarei to Dunedin, including two mobile buses, and the recent amalgamation of its two Takapuna practices onto one site.

Historically, we have acquired six dental practices per year and were expecting this to increase to between 8 and 10 practices in 2008. However, based on our current acquisition rate in the first half of the financial year, and the increasing number of opportunities under review, we now believe that we will exceed this target.

We have already acquired seven new practices in the first six months of the current financial year, including four clinics acquired in recent weeks - City Dental at Quay Park in Auckland’s CBD, Five Cross Roads in Hamilton, the Dental Rooms in Masterton and most recently, Burton and Brown in the Wellington CBD.

City Dental at Quay Park is a leading top end Auckland dental practice, run by Dr Andrea Shepperson and provides a strong foothold for Lumino into the Auckland CBD. Dr Shepperson is widely regarded as one of New Zealand’s leading clinicians and entrepreneurs in the general dental field.

Five Cross Roads Dental Centre is a well established practice in Hamilton East. Lumino now has practices in both Hamilton East and Hamilton West. It is a large family based practice with four dentists offering general dentistry and orthodontic services.

The Dental Rooms is a four dentist practice in Masterton which has been operating for over 30 years and has a loyal local customer base. It is run by highly experienced dentists, Dr Frank Sonntag and Dr Eric Marinovich. Dr Marinovich was one of the first general dentists to undertake implant surgery in New Zealand and is well regarded for this work in the wider Wellington region.

Burton and Brown is the seventh Lumino practice to be established in Wellington. Burton and Brown is a high end dental practice located in the Harbour City Tower, in Wellington’s CBD, where it has been operating for over 10 years. Both lead dentists, Dr John Burton and Dr Andrew Brown, are highly experienced and well regarded within the industry. John was recently president of the

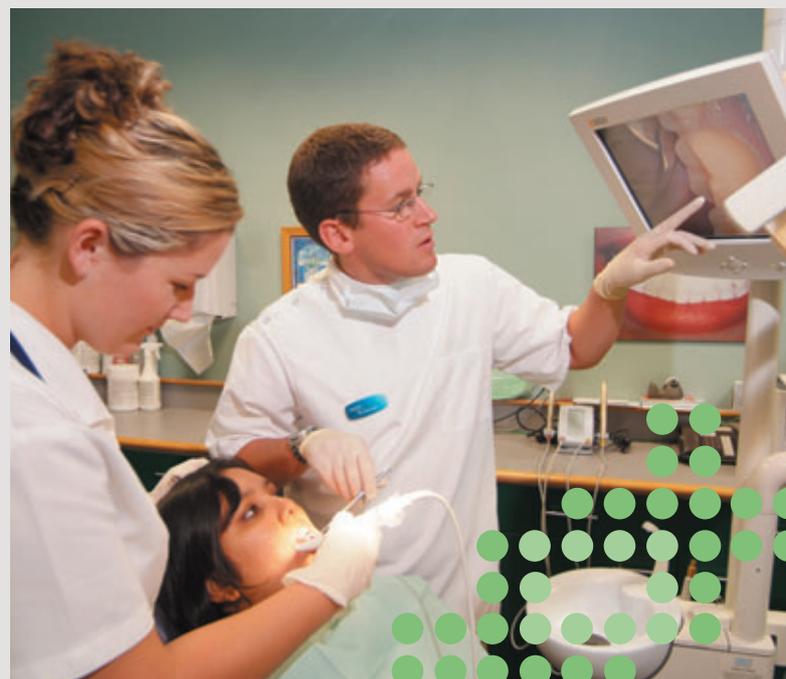
Wellington branch of the New Zealand Dental Association and Andrew, who holds an MBA from Henley, was the Treasurer.

The Lumino business is now starting to realise the benefits of economies of scale, which is at the core of this sector’s business model.

More than \$6.5 million in annualised revenue from new acquisitions has been added in 2008 and Lumino is well on target to achieve its total forecasted revenue for the year of approximately \$27 million, over 35% higher than the 2007 financial year.

Acquisitions are providing an average EBITDA to revenue contribution of over 20% and this is a key driver in increasing the consolidated earnings margin of the Abano Dental sector. As previously advised, with acquisitions providing an EBITDA return on invested capital in excess of 25%, and increasing margin growth, we expect to see this sector’s return on invested capital migrate towards the target of between 15 and 25 percent.

We are focused on acquiring high quality dental practices led by well respected principal dentists, with strong customer bases. A consumer marketing and brand awareness programme will be rolled out in coming months as we undertake to make Lumino the most well known and preferred dental brand in the country.



DIAGNOSTIC // UPDATE

// AOTEA PATHOLOGY

FIRST BIRTHDAY CELEBRATIONS FOR AOTEA PATHOLOGY

Aotea Pathology, the joint venture between Abano and Sonic Healthcare, celebrated its first birthday on the 1st November 2007.

It has been a busy twelve months since the new DHB contract for pathology services in the Wellington, Hutt Valley and Kapiti Coast regions commenced.

The main laboratory has undergone significant change, with all testing now undertaken on one site. The old Medlab laboratory has undergone a major refurbishment and now has state of the art analysers and equipment. This has already dramatically increased efficiency and improved the operating performance above expectations.

Several collection depots have also been refurbished and there has also been a move to a new site in central Lower Hutt.

Under the DHB contract, Aotea is now also able to charge for privately referred specialist tests, which were historically covered under the public contract. Private revenues from this and increasing commercial testing are expected to grow over the next three years and initial indications are that these will contribute a minimum of another \$15 to \$20 million over the next four years of the DHB contract.

// ASCOT RADIOLOGY

STATE OF THE ART BREAST IMAGING AND RADIOLOGY CLINIC TO OPEN IN 2008

Work is progressing on Ascot Radiology's new state of the art breast imaging and radiology clinic, due to open in April 2008 in the new Ascot Central building in Auckland.

Ascot Radiology Central will specialise in breast imaging, including full field digital mammography, 3D ultrasound and the latest MRI technology utilising one of the country's only 3T MRI scanners, all supported by leading edge computer aided detection software.

Leading specialist Breast Care providers, Breast Associates, will be also be moving to a new site immediately adjacent to the radiology clinic. Clinicians from Breast Associates and Ascot Radiology Central will work together to provide patients with seamless access to care, diagnosis and treatment.

Breast Associates is a comprehensive breast clinic. It comprises three leading breast surgeons, Dr Belinda Scott, Dr Alex Ng and Dr Wayne Jones. Dr Belinda Scott is the Chair of the Medical Committee for the New Zealand Breast Cancer Foundation. Drs Alex Ng and Wayne Jones are also consultant surgeons at Auckland City Hospital. All are members of the Auckland Breast Cancer Study Group.

The surgeons are supported by three breast physicians as well as specialist breast care nurses. It provides exemplary care for patients who may require breast cancer, cosmetic, or reductive breast surgery. The clinic also specialises in the management of benign breast conditions, risk assessment, and the provision of breast health checks.

The clinical partnership between Ascot Radiology Central and Breast Associates will provide patients with access to the most recent advances in diagnostic and surgical techniques and the highest quality breast imaging services.



REHABILITATION // UPDATE

// ABANO REHABILITATION

Abano Rehabilitation has entered the 2008 financial year with a stronger business platform, and is taking advantage of new ACC contracts and fee increases to grow the business.

The residential rehabilitation expansion programme is moving ahead with a number of new beds incorporated into existing facilities and construction of new premises in Auckland and Whangarei.

The Poutama facility in Takanini has expanded from six to 13 beds; and a newly constructed house in Whangarei will increase the number of local beds from six to 12. A lease agreement has been signed and building consents obtained for a new facility to be built in Swanson, Auckland, which will add a further six beds.

The community services team has also started providing additional ACC work for the assessment and management of pain. This is a new area for Abano Rehabilitation and was started late 2007, with pleasing feedback to date.

Recruitment and retention of staff is a key focus of all Abano businesses, and Abano Rehabilitation has a varied programme to ensure staff enjoy their work, feel rewarded and take advantage of opportunities to learn and grow in their careers. This programme includes the recent launch of a new intranet site for company policies, forms and documents, and provision of computer training for all staff, some of whom have never used a computer before.

Three major staff conferences are run each year, where there is a focus on specific learning areas and implementation of changes to company policies.

ACC is making changes in the way they process serious injury claims, with a strong focus on integration of claimants back into community life. In line with this integrated approach we have also changed how some of our clinicians work, and now have a number of clinicians working across both the residential and community services teams. This gives them a broader view of rehabilitation and allows the same clinician to work with a single client as they move from residential services back into the community.

// ORTHOTICS CENTRE

IMPORTANT CONTRACT WIN FOR ORTHOTICS CENTRE.

Abano owns 100% of Orthotics Centre, which operates in three regions in the North Island, in Auckland, Hamilton and Wellington.

The sector is primarily funded by DHB contracts and the Orthotics business has recently signed a new contract to provide complete orthotic services to the Waikato District Health Board up to June 2010.

This is a multi-million dollar contract and was won following a competitive tender. The business has invested in extra clinical staff and new equipment to support the contract, including a minor fabrication facility to provide instant modifications for local patients. This is the first time this service has been available at the Waikato Hospital for some years.

Orthotics Centre has also just completed the first phase in implementing a new IT platform with new systems to better assist in stock management and improve accounting processes.

There is a growing private market for both retail customers as well as other clinical providers, and the business remain focused on increasing private revenue and improving margins to provide a more profitable service.





GOLFERS – EXPERIENCE THE HEARING AID YOU’LL ACTUALLY WANT TO WEAR

“The days of being embarrassed about wearing hearing aids are long gone” Maggie Barry

If you need a little help with your hearing, but you thought hearing aids were large and obtrusive, prepare to be amazed by the new Delta range from Oticon.

Delta is a new generation of hearing aid that’s so small and discreet it virtually disappears, yet it is so stylish you’ll want to show it off.

Designed especially with golfers in mind, the Delta Fairway is the super-small, stylish hearing aid that will help you stay on top of your game.

Its leading-edge technology offers superb sound quality, so you’ll never miss a conversation again - even on windy fairways or in noisy clubrooms. Just imagine re-discovering the sound of the perfect putt!

Some of the reasons why the Delta Fairway could be right for you:

- Virtually invisible to wear
- Incredibly lightweight & comfortable
- Superb hearing quality (including natural-sounding speech)
- Affordable pricing options

See the new Delta Fairway at the Bay Audiology clinic nearest you, visit our website on www.audiology.co.nz or call us toll-free on 0800 800 854.

On behalf of the team at Bay Audiology, we hope to see you soon. In the meantime, enjoy your next round!

SPECIAL NEW ZEALAND GOLF OPEN OFFER

To celebrate the New Zealand Golf Open, Bay Audiology is currently offering a **FREE** hearing check and **FREE** Delta demonstration at a clinic near you.

Call 0800 800 854

to make your booking now.

Hurry, offer closes

30 JANUARY 2008

www.audiology.co.nz

 **BAY AUDIOLOGY**
THE HEARING EXPERTS

AOTDL/NZG

ABANO HEALTHCARE GROUP LIMITED

P O Box 106-514, Auckland 1143

Telephone: +64 9 300 1410

Facsimile: +64 9 300 1419

Email: enquiries@abanohealthcare.co.nz

www.abanohealthcare.co.nz