

Making Contact

ABANO SHAREHOLDER NEWSLETTER

ISSUE NINE NOVEMBER 2006

Company Happenings

The first half of the 2007 financial year is drawing to a close, and we are pleased with the solid performances from the businesses across the Group.

The annual meeting, held on 27 October 2006, was a good opportunity for us to meet with shareholders and share the strategy and future plans for all the businesses. Sustainable profitability, increased private revenue, improved earnings per share and confirmation of a maiden dividend payment at the end of the 2007 financial year, were all key announcements at the meeting.

Former Chairman of Abano, Mr Jim Syme, also announced his retirement as a director, and expressed his confidence in the future of the Abano group.

"2006 was a very successful year for Abano and marked a period of significant change with the sale of the aged care business, ElderCare, and our investment into the audiology and orthotics sectors. We now have a number of businesses with capable and talented leaders that are strengthening and growing their operations.

"Overall, we were pleased to report improved operational earnings per share. Excluding the gain on sale from ElderCare, earnings per share rose from 3.7 cents per share in 2005 to 7.0 cents per share in 2006, and we expect to see further improvements in this financial year and beyond".

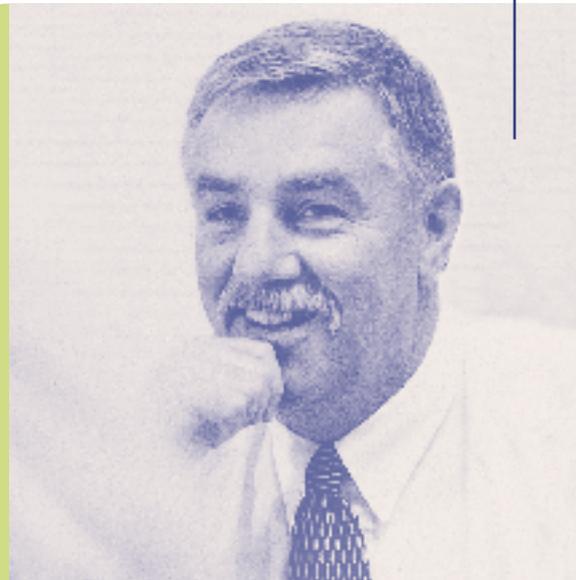
Jim also confirmed the company was on track to produce an increased interim profit for the six months to 30 November 2006.

"The core financial performance for the six months ending 30 November 2006 will be significantly ahead of last year, as the benefits from the changes made to the Group's portfolio of businesses start to flow through to the bottom line.

"For the first six month period, we are expecting revenues in the range of \$39 million to \$41 million, an EBITDA of between \$5.0 million to \$5.3 million and NPAT of between \$1.8 million and \$2.1 million".

He continued: "Pleasingly, we are also expecting the full year to be well up on last year's result. Our guidance for the full year to 31 May 2007 is that we expect revenues to be between \$79 million to \$83

Alan Clarke CEO of Abano Healthcare



million, EBITDA in the range of \$9 million to \$10 million and a NPAT of \$2.6 million to \$3.1 million".

Based on these forecasts, it was announced that Abano will pay a maiden dividend at the end of the 2007 financial year, of 50 percent of the NPAT achieved. The dividend will carry full imputation credits.

In addition to Jim Syme's retirement as a director and following the re-election of Alison Paterson, it was announced that the Abano board had elected Alison as chairman.

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Company Happenings // CONTINUED

Mrs Paterson addressed the meeting and expressed her confidence in the company and management team and her delight at the Group's financial progress.

Shareholders were also informed of several other changes to the board. Phil Newland, a long standing director, recently gave notice to the Abano board that he would be resigning as a director from December 2006, due to other work commitments, and it was announced that Mr Graeme Edmond would be joining the board following the annual meeting.

Graeme is currently Group Managing Director of Optical Holdings Limited and its subsidiary businesses, including Visique. He is a widely respected and experienced company director with a depth of experience in both the public and private healthcare and medical services markets, including past roles as CEO of Auckland District Health Board and Midland Regional Health Authority. His input and knowledge will be of great value to the Abano board.

Jim concluded: "The Group's task ahead is to continue to grow, and with the strong leadership of Alan Clarke and our sector partners and management teams implementing our agreed strategic plan, I believe that shareholders will see a rapid rise in profitability and the consequent increase in dividends".

Jim and Phil have been directors on the Abano board since October 2001. Abano (then Eldercare), had two businesses - one in aged care and one in rehabilitation - with annual revenues of under \$35 million; an EBITDA of under \$4.5 million generating an operational loss after tax of over \$4 million, with over \$40 million in bank debt.

They leave the company with annualised revenues of over \$79 million, an EBITDA of over \$9 million and a forecast NPAT of over \$2.6 million, an announced dividend policy and a great business footprint to work forward from. On behalf of shareholders and staff, we would like to thank them both for the positive legacy they have left.

Abano has made excellent progress in the financial year under review with a focused strategy and steady operational progress. The operational hole created by the sale of our Aged Care Sector, in July last year, was filled with our investments in Bay Audiology and the Orthotic Centre which both contributed strongly in the second half of the 2006 financial year, following their acquisition.



Jim Syme
Former Chairman of Abano Healthcare



Alison Paterson
Chairman of Abano Healthcare



Graeme Edmond
Director of Abano Healthcare

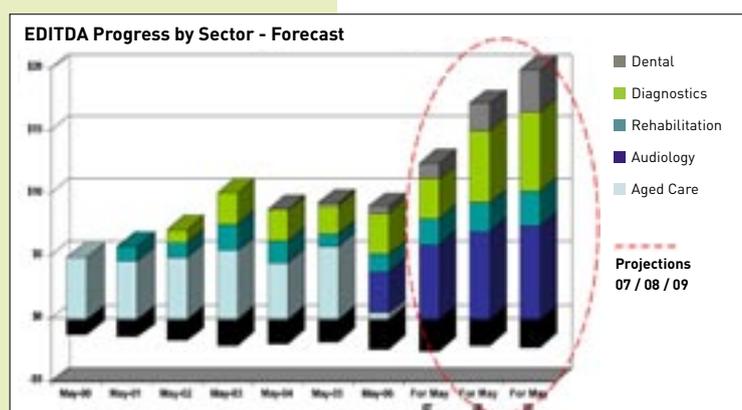
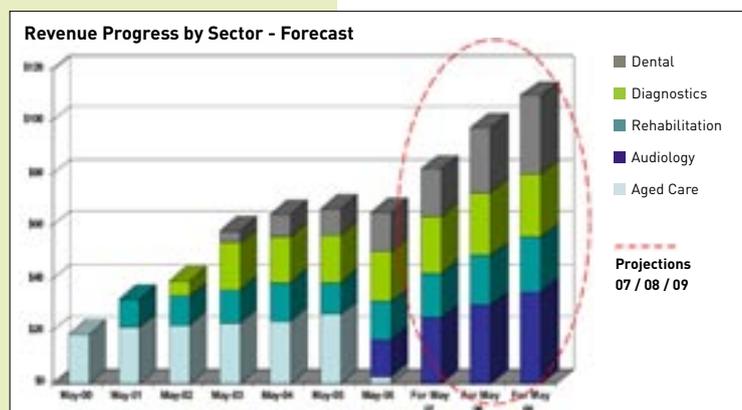
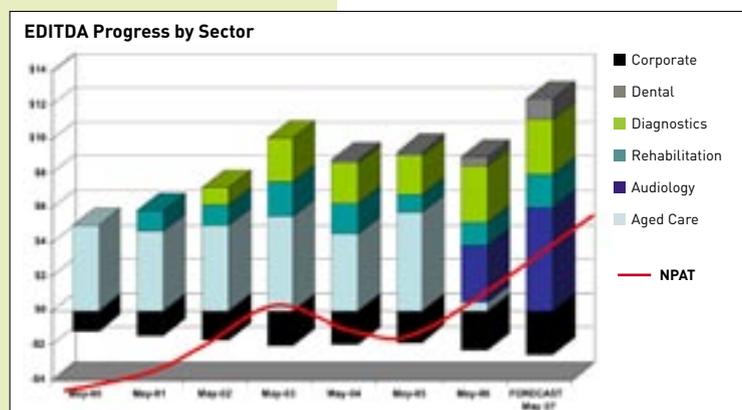
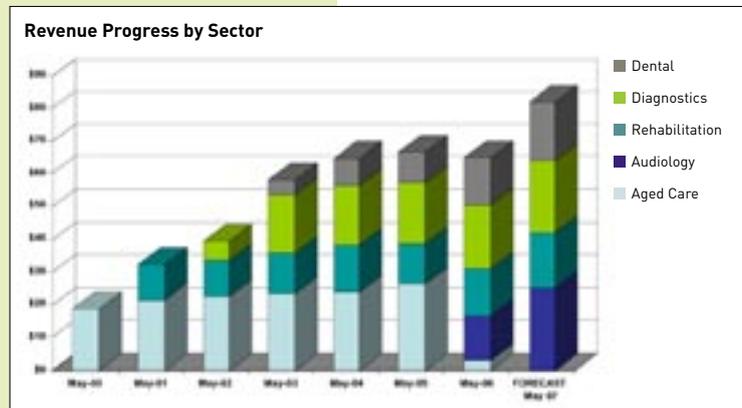
Company Happenings // CONTINUED

We have growth strategies in place for our Audiology, Dental, Radiology and Orthotics businesses, with hold and maintain strategies for Pathology and Brain Injury Rehabilitation. The individual sector strategies in these existing businesses, translate to a projection of over \$90 million in Group revenues and an EBITDA of greater than \$12 million by 2008, and over \$100 million in revenues and an EBITDA greater than \$15 million by 2009.

Since the annual meeting, we have announced the acquisition of the remaining 30 percent holding in Orthotic Centre NZ for \$2.3 million, taking ownership to 100 percent of the business. We invested \$4.5 million in October 2005 for a 70 percent share of Orthotic Centre NZ, and are now acquiring the remaining 30 percent to enable growth and development of the business, particularly in the private revenue side.

The first half of the 2007 financial year has seen steady growth across Abano's dental and audiology sectors. Growth continued in dental, with the Lumino Group expanding by a further three practices - in Orewa and Wellington (2) - in the first six month period. Bay Audiology also extended its network, opening clinics in Wanganui, Blenheim and Kapiti.

We are pleased with Abano's current performance and we look forward to adding shareholder value through increased earnings and the 2007 dividend payment. My management team and I are always available to talk to shareholders or answer your enquiries about the Abano business and I welcome your interest. You can also register to receive company announcements and online copies of our shareholder reports in the Investor Centre on our website www.abanohealthcare.co.nz.



AUDIOLOGY // UPDATE

Market Size

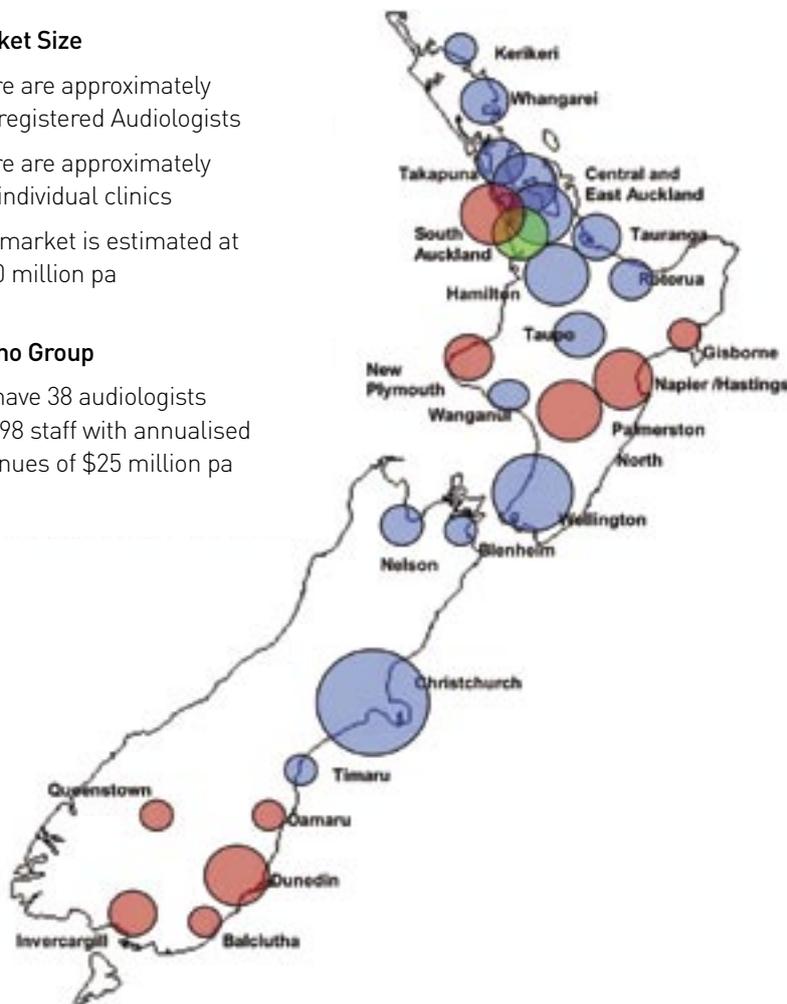
There are approximately 250 registered Audiologists

There are approximately 200 individual clinics

The market is estimated at \$200 million pa

Abano Group

We have 38 audiologists and 98 staff with annualised revenues of \$25 million pa



BAY AUDIOLOGY
THE HEARING EXPERTS

Bay Audiology existing clinics include:

- | | |
|--------------|--------------|
| Kerikeri | Wellington |
| Whangarei | Kapiti Coast |
| Auckland | Hamilton |
| Christchurch | Taupo |
| Wanganui | Nelson |
| Blenheim | Timaru |
| Rotorua | |

Dilworth Audiology existing clinics

Owned 40% through Bay
Auckland – Epsom, Remuera,
Takapuna, St Heliers, Howick

Potential clinics

- | | |
|-------------------|--------------|
| Auckland | Gisborne |
| Napier/Hastings | New Plymouth |
| Palmerston North | Otago |
| Southland/Central | |

Bay Audiology is New Zealand's only national audiology chain with a majority of its income generated from private fee payment. It is a profitable and growing company with an identified strategic plan and direction. A growth and expand strategy is in place for Bay Audiology, and in the past two months, the business has opened two full time Bay clinics in Kapiti Coast and Blenheim, and acquired a permanent clinic in Wanganui.

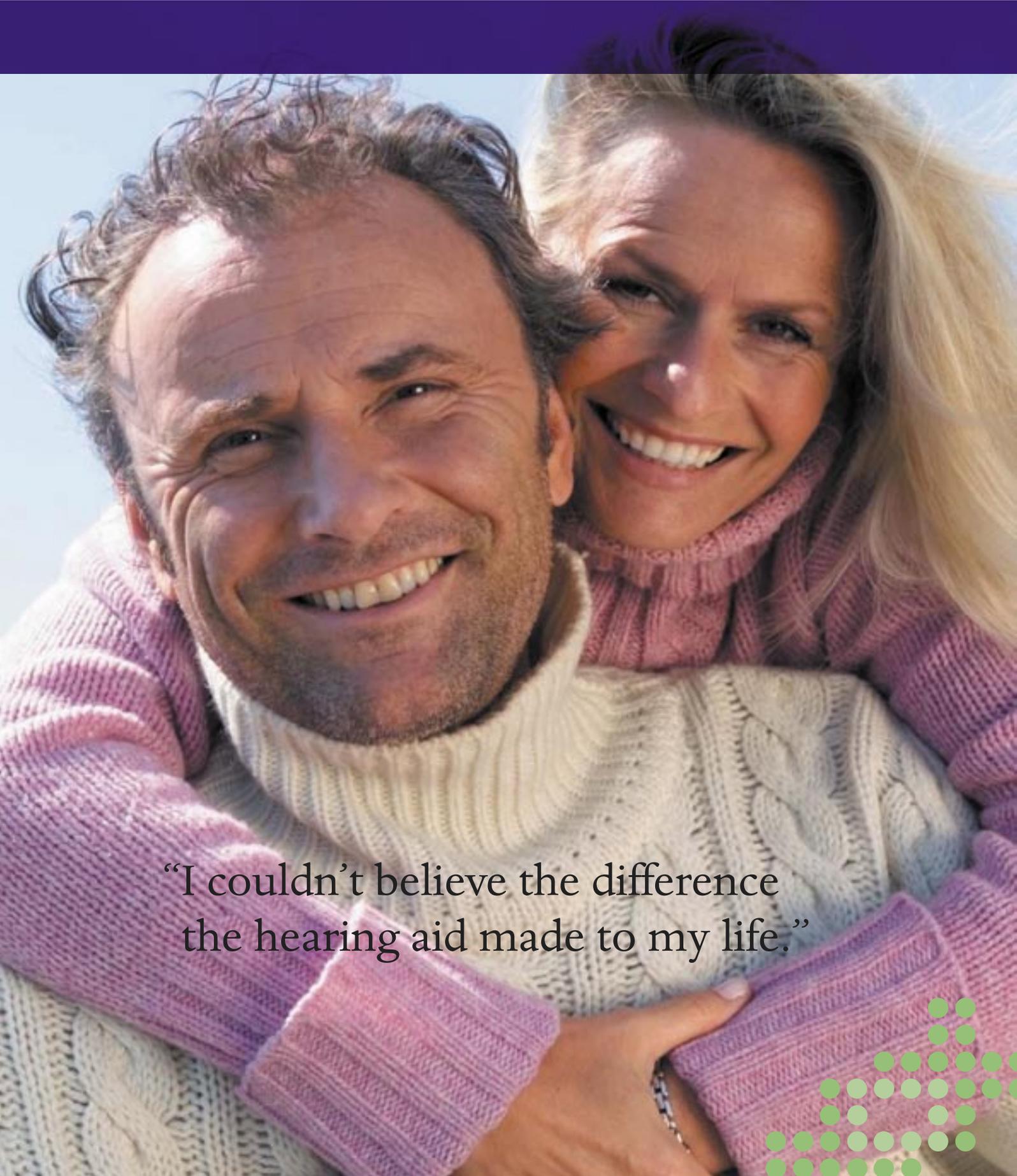
Since year end, Bay also signed a new contract with ACC, which is commercially sound. This followed a two year negotiation by the Audiology industry and we were happy with the eventual outcome.

Internationally, Bay is recognised as one of the leading clinical audiology networks in the world, and as such,

Bay director, Scott Wright was recently appointed as Adjunct Assistant Professor at Vanderbilt University in the United States. Scott's appointment provides a unique opportunity for New Zealand audiology to develop a closer relationship with one of the most advanced and innovative hearing and speech science research faculties in the world, and also offers access to a pool of internationally trained audiology graduates and possible recruitment opportunities.



We believe that over the next three years the business will double in size with a number of exciting initiatives.



“I couldn’t believe the difference
the hearing aid made to my life.”



DIAGNOSTICS // UPDATE

// ABANO PATHOLOGY

Market Size

The Pathology market is 98% DHB and MOH funded

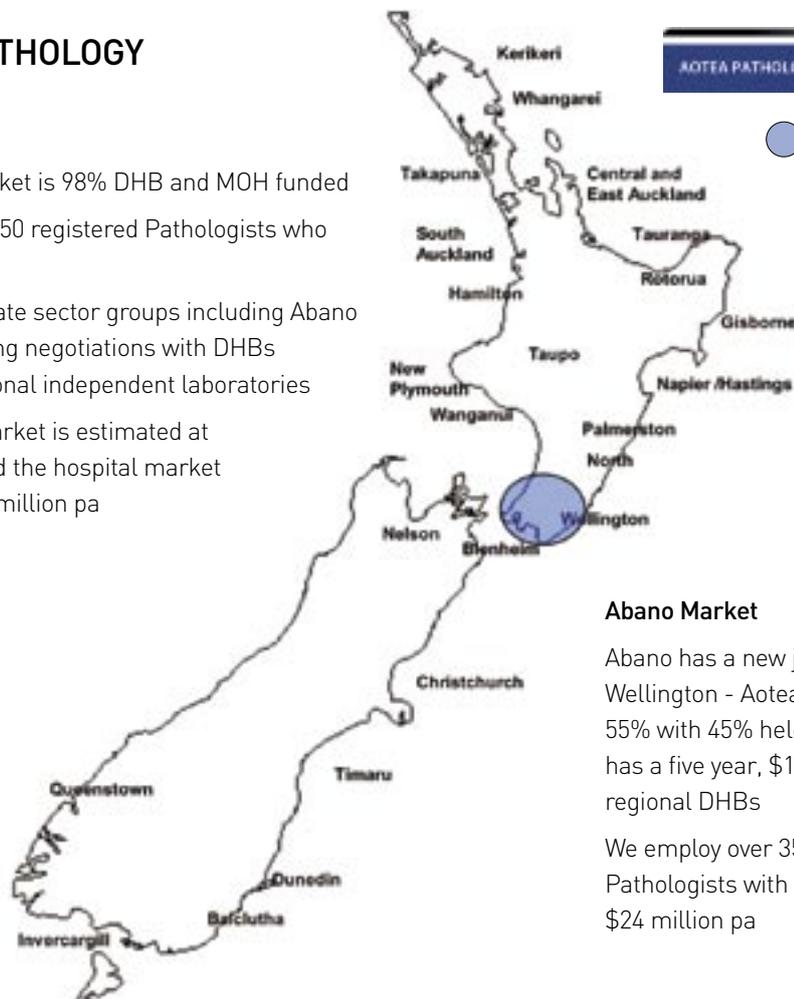
There are around 150 registered Pathologists who work in this area

There are four private sector groups including Abano

All are in contracting negotiations with DHBs

There are two regional independent laboratories

The community market is estimated at \$230 million pa and the hospital market estimated at \$200 million pa



Abano Market

Abano has a new joint venture laboratory in Wellington - Aotea Pathology. Abano holds 55% with 45% held by Sonic Healthcare. Aotea has a five year, \$102 million contract with two regional DHBs

We employ over 350 staff including 11 FTE Pathologists with annualised revenues of \$24 million pa

Following months of planning, the merger of Medical Laboratory Wellington and Valley Diagnostic Laboratories occurred with the consolidation of laboratory facilities onto the Medical Laboratory Wellington site on 28 October 2006. The new joint venture has been branded Aotea Pathology and is headed up by new Chief Executive Officer, Dr Karen Wood, formerly CEO of Sonic's Valley Diagnostic Laboratory.

The transition has been smooth with no significant interruption to service delivery, thanks to the considerable efforts of a dedicated and capable staff and a carefully planned and managed implementation process. All testing has been processed and reported with minimal delays which is a truly remarkable achievement given the expanded operation of over 2,500 patients a day combined with some of the busiest days on record, making this the second largest single site laboratory in New Zealand.

The new \$102 million 5 year contract, which will be supplemented with an additional \$10 million in private revenues over that time, commenced on 1 November 2006, coinciding with the introduction of charges for testing done on patients referred

by private specialists. Aotea Pathology is the first New Zealand laboratory to introduce these charges, following a decision by the Capital & Coast and Hutt Valley DHBs to remove public funding for this testing.

Staffing is being finalised with senior posts filled but some more junior appointments to be made. Redundancy costs following the merger are coming in below expectations as both contributing entities have carried unfilled vacancies on top of resignations from a number of staff who have taken the opportunity to pursue other career options.

Progress has been made on refitting the laboratory spaces and re-equipping with new testing platforms, some of which will be the first of their kind in New Zealand.

Priority in the first instance is on operational efficiency but will be followed by initiatives to reduce demand, essential under a fixed price contract. Aotea Pathology is looking forward to working on this as it supports local practitioners in the delivery of optimal patient care and we continue the 75 year old service to the region's communities.

// ABANO RADIOLOGY

Market Size

The Radiology market is estimated to be 60% Private, 35% ACC and 5% DHB payment

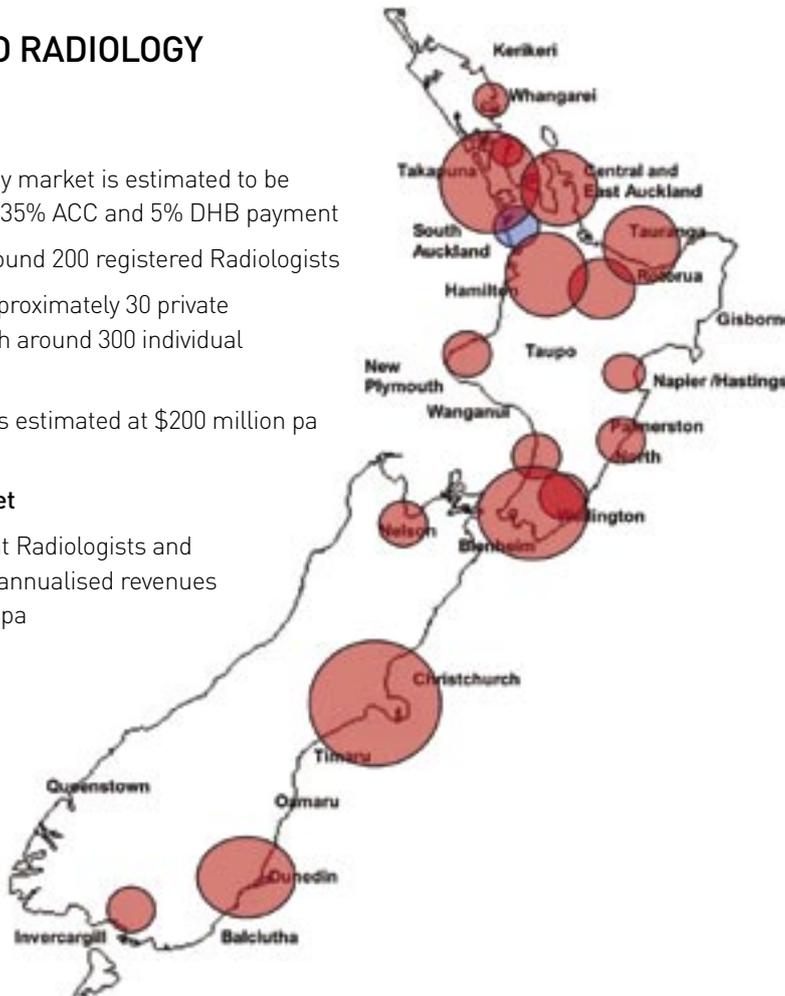
There are around 200 registered Radiologists

There are approximately 30 private practices with around 300 individual clinics

The market is estimated at \$200 million pa

Abano Market

We have eight Radiologists and 35 staff with annualised revenues of \$6 million pa



- Existing Ascot Radiology coverage
Auckland
- The private radiology market
Auckland
Whangarei
Central North Island
Tauranga
Rotorua
Nelson Marlborough
Christchurch
Otago
Southland

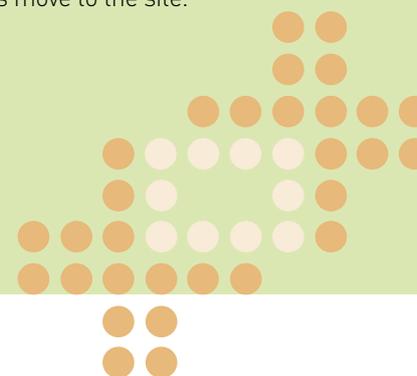
Radiology is a sector in which Abano has been involved in for eighteen months. The model and business is working well and in May 2007, we move from our current 40 percent holding to a 70 percent shareholding, when we will introduce six new Radiologists to our existing equity partnership with the two practice founders.

The Cardiology joint venture with the 64 slice CT scanner, as covered in our last newsletter, has gone from strength to strength. Routine scanner time has been reduced significantly and all Radiologists and other clinicians involved are delighted with the technology, its speed, accuracy and ability to provide extreme detail that simply wasn't possible before.

The PAX digital reporting system, which sends images directly to our referring specialists, has now been rolled out to most clinicians in the Ascot complex and

surrounding community . This has resulted in faster reporting, reduced film costs and the ability for referrers to rapidly access high definition images for analysis or direct discussion with their patients.

The much anticipated clinic building adjacent to the Ascot Hospital is nearing its start date with Calan Healthcare taking the bottom two floors and additional clinical suites expected on the upper floors. There is an anticipated increase in specialist referrals as these floors are completed and medical specialists move to the site.



DENTAL // UPDATE

Market Size

The Dental market is 99% private payment

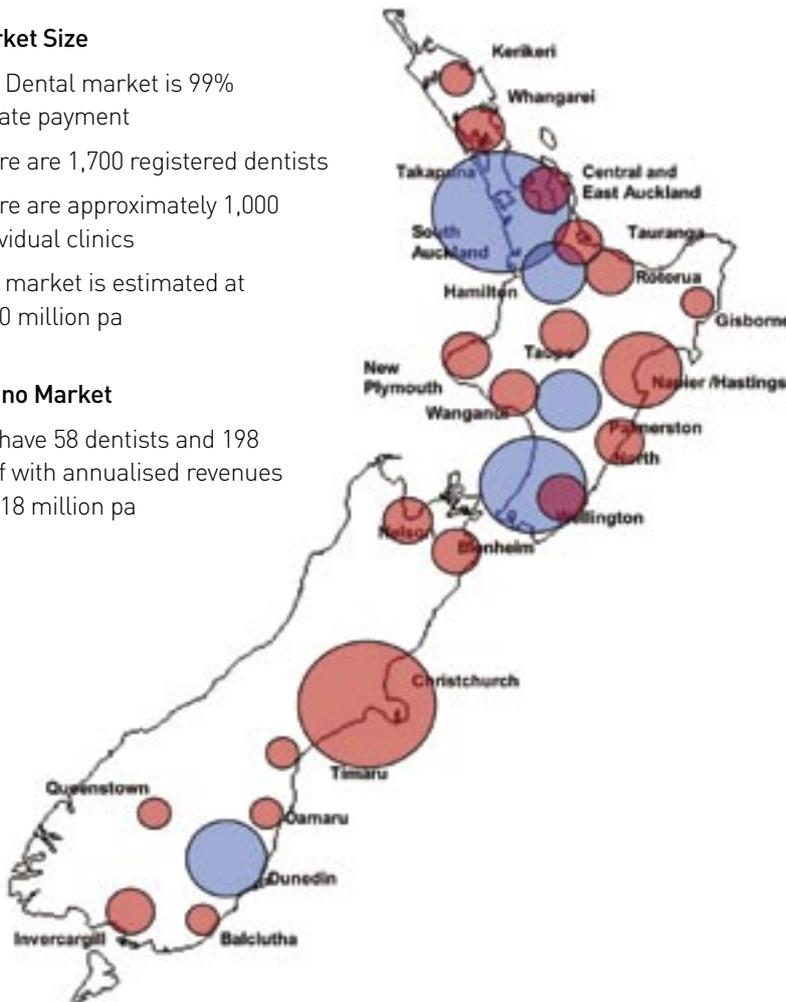
There are 1,700 registered dentists

There are approximately 1,000 individual clinics

The market is estimated at \$380 million pa

Abano Market

We have 58 dentists and 198 staff with annualised revenues of \$18 million pa



Existing Lumino clinics

Auckland

- | | |
|--------------|--------------|
| University | Henderson |
| Mt Roskill | New Lynn |
| Botany Downs | Panmure |
| Papakura | Victoria Ave |
| Takapuna | Remuera Road |
| Red Beach | Orewa |

Wellington

- | | |
|----------------|-------------|
| Miramar | The Terrace |
| Courtney Place | |

- Dunedin
- Hamilton
- Dargaville
- Te Awamutu
- Palmerston North

Potential Lumino clinics

- | | |
|----------------------|-----------|
| Auckland | Whangarei |
| Central North Island | Tauranga |
| Nelson Marlborough | Rotorua |
| Christchurch | Otago |
| Southland | |

Lumino Care Dental is now a nationwide network of quality dental practices that derives almost 100 percent of its income from the private payment of fees. A growth and expand strategy is in place and currently the network is expanding at a rate of six practices a year. With new management in place and the support of a clinical board made up from our clinical partner dentists, the business continues to grow and improve returns, with the potential to double in size in the next three years.

In November, we announced the acquisition of a fourth

Wellington dental practice, Anthony Wong Dental in Dixon St, increasing the network to 22 practices across New Zealand, with over 200 staff. This is in addition to the two other Lumino practices acquired in Auckland and Wellington in the first half of the 2007 financial year.

Lumino part-sponsored the Cerec Users Conference in Wellington in October, which gave us access to many of the leading dentists throughout New Zealand. We continue to explore the possibility of introducing Cerec technology into more of our practices. Cerec offers

A large, close-up photograph of a man's face, smiling broadly, showing his teeth. The image is the background for the text on the left side of the page.

Ceramic dental restorations using the latest CAD/CAM technology allowing patients to have restorations fitted in a single sitting. We are fortunate to have the only two certified New Zealand Cerec trainers, working for Lumino.

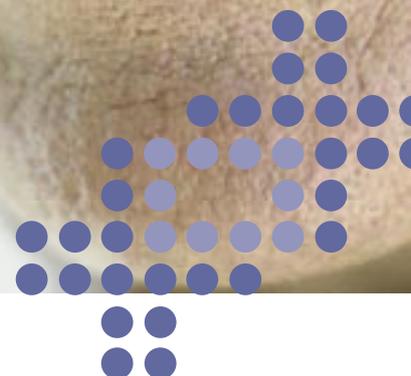
Plans are already underway for our second annual conference following the success of our inaugural conference on Waiheke Island last year, with international guest speakers lined up. The conference emphasises our philosophy to be the country's leading professional dental practice and promote continuing education for all our staff.

We continue to actively recruit new dentists to the group with two young English locums assisting in our Takapuna, Remuera and University practices. We have also recruited a new dentist to our busy Dargaville practice.

Vikki Andrews has recently been appointed as Lumino's operations manager and will be responsible for the day to day management of the Lumino Group. Vikki has had experience in senior HR and managerial roles with Baycorp Advantage and, most recently, with NZ Post.

Lumino's support office has recently moved from its original home on the North Shore to West Plaza building in Auckland city, where we are now sharing offices with Abano's corporate team. The move facilitates cost savings for both the Abano head office and the Dental support group with a net overall benefit to Abano.

We continue to selectively use the Fly Buys database with selected promotions for local practices, and it is our pleasure to be able to present our shareholders with a special promotional offer in this newsletter. Please see the back of the newsletter for more details.



REHABILITATION // UPDATE

// ORTHOTICS

Market Size

The Orthotics market is estimated to be 80% Private, 10% ACC and 10% DHB payment

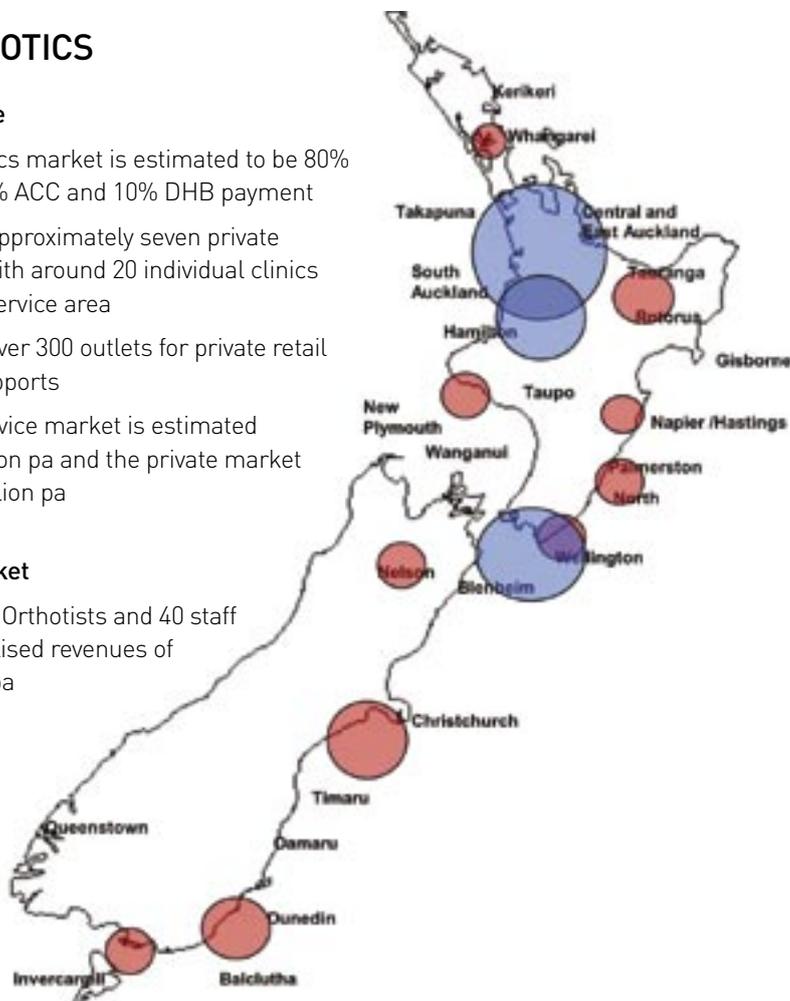
There are approximately seven private practices with around 20 individual clinics in the full service area

There are over 300 outlets for private retail orthotic supports

The full service market is estimated at \$15 million pa and the private market at \$100 million pa

Abano Market

We have 12 Orthotists and 40 staff with annualised revenues of \$6 million pa



Orthotic Centre

Existing practices

Auckland
Hamilton
Wellington

Potential private practice expansion

Private Market Development

Auckland
Whangarei
Tauranga
Hamilton
Wellington
Christchurch
Dunedin

Full Service Development

Christchurch
Dunedin

The Orthotic business is a clinical specialty that tends to operate under the radar, and serves the needs of hospitals, ACC and a growing private market. Over 30 percent of income is derived from the private payment of fees and we see this area as a very attractive place to expand our services.

In October 2006, we appointed Angela Aldous to a newly created position of Sales and Marketing Manager. Angela will head up the sales and marketing function as we explore identified opportunities to expand our wholesale operations and look hard at the potential in the private market. This is part of a plan to expand, develop and grow this business over the next three years.

On 27 October 2006, Abano acquired the remaining 30 percent shareholding from the company's founder, John Clark, who is very supportive of the business and will remain as a consultant director to the company. The move enables growth, investment and development of the business, particularly in the private revenue side to occur. The business' long standing board of Mr Ross Nicholson, Denis Currie and John Clark will continue with Richard Keys and Alan Clarke representing Abano under the new ownership. Their experience, knowledge and expertise is welcomed in building a strong future for this important service.

// RESIDENTIAL AND COMMUNITY REHABILITATION

Market Size

The Rehabilitation market is 95% ACC and MOH funded

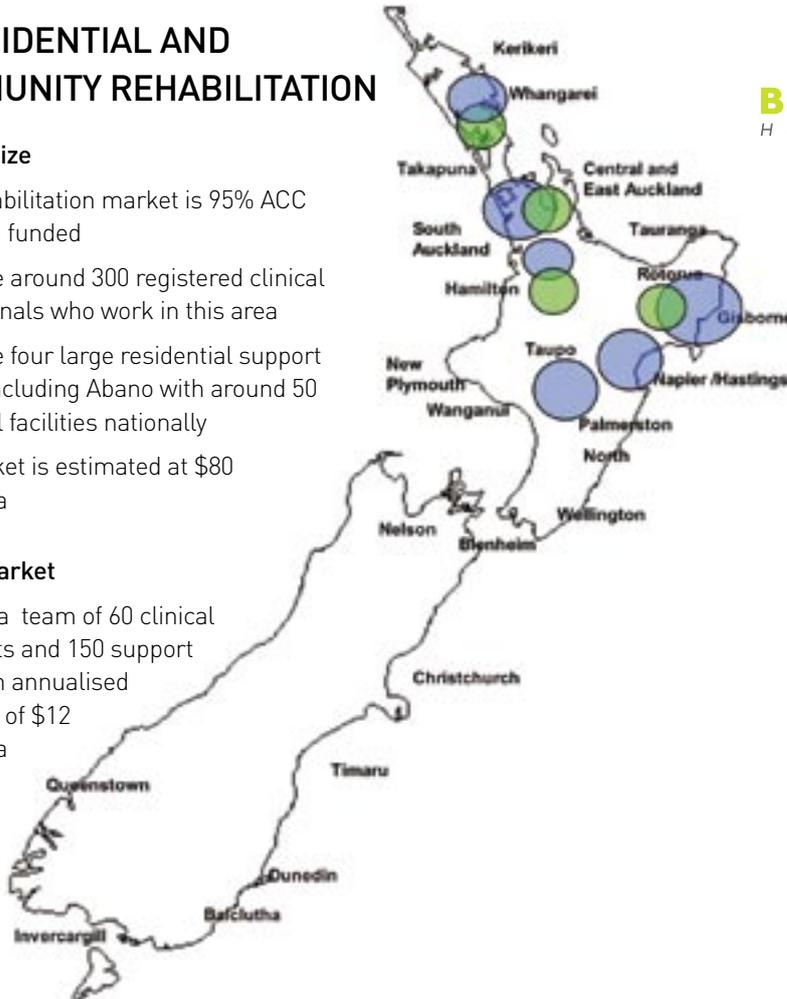
There are around 300 registered clinical professionals who work in this area

There are four large residential support groups including Abano with around 50 individual facilities nationally

The market is estimated at \$80 million pa

Abano Market

We have a team of 60 clinical specialists and 150 support staff, with annualised revenues of \$12 million pa



- **Existing residential facilities**
Ranworth Healthcare
Auckland : West Auckland
 South Auckland
 Central Auckland

 Hastings
 Whangarei
 Palmerston North
 Hamilton
Gisborne : 3 Residential Facilities
- **Existing Out Patient facilities**
Burtens Healthcare & Health Partners and Ranworth Community Support
 Auckland
 Hamilton
 Gisborne
 Whangarei

The Abano Rehabilitation residential business is now producing an acceptable return, and a facility upgrade programme is in progress as the business looks to attract a wider range of clients.

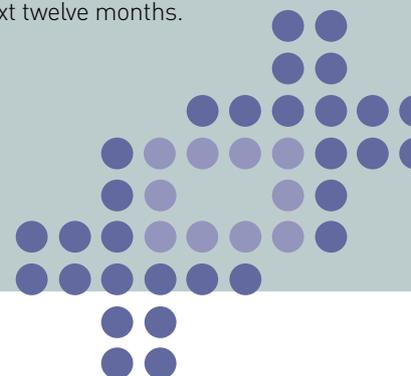
The two West Auckland facilities will be moving into new premises in Swanson, which are being purpose built to provide wheelchair access and a more appropriate physical layout for clients with higher needs.

In Palmerston North, Abano Rehabilitation has recently moved into a larger, more appropriate building and in South Auckland, the Poutama site is being extended to incorporate a four bedroom house and two flats. We also have plans to develop a new site in Whangarei, adding

additional beds and enabling the business to attract a wider range of client referrals.

Overall, an additional 18 beds will be added to the residential base over the next six months.

Our out patient services are still under structural change, and progress is being made. These businesses will continue concentrating on margin improvement and some limited organic growth over the next twelve months.





Here's something to smile about

Collect Double Fly Buys points on all Dental treatment throughout December and January at all our Lumino locations nationwide.

**Phone 0508 LUMINO
0508 586 466**



Offer valid from 1 December 2006 to 31 January 2007. Please bring this advert with you to your appointment to receive your double Fly Buys points.

New Zealand's Largest Dental Group
www.lumino.co.nz

RECEIVING SHAREHOLDER COMMUNICATIONS // AND REPORTS

As an Abano shareholder, you receive a number of our printed publications. 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.

You can now register to receive shareholder communications and publications - annual and half year reports and shareholder newsletters - electronically, rather than in print. You will continue to receive notice of meetings, voting forms and dividend statements 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 are faster and more convenient receipt of shareholder materials, a reduction in corporate costs and a positive impact on the environment.

REGISTRATION IS SIMPLE Simply register online at www.abanohealthcare.co.nz/shareholderservices.

You will need your shareholder number and FIN number to register.

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