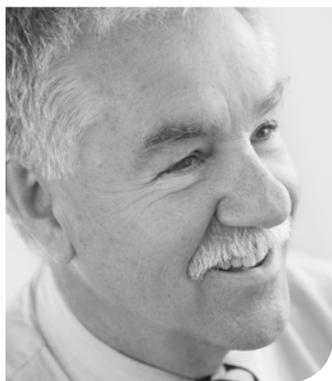


MAKING CONTACT

ABANO SHAREHOLDER NEWSLETTER



Overall, the annual meeting was a positive affair with investors, including Brian Gaynor and the NZ Shareholders Association, commending Abano's Board on the stance taken in regards to the Archer/Hutson/Reeves unsolicited proposal.

The last six months has been a busy time for Abano's management and Board as we have continued to focus on deploying our long term growth strategy and completed a successful capital raising.

We also received and rejected an unsolicited, indicative and conditional proposal from private equity firm, Archer Capital, along with interests associated with James Reeves and Peter Hutson (Archer/Hutson/Reeves), which the Board believed significantly undervalued our company.

We provided an update on this activity to our shareholders at the recent annual meeting held in Auckland on 26 November 2013. A full copy of the speeches and presentation can be viewed on our website www.abano.co.nz/annualmeeting.

One of the major announcements at the meeting was the independent valuation of \$8.30 to \$10.05 per Abano share, provided by Grant Samuel. This values Abano's equity between \$169 million to \$205 million, materially higher than the indications of value from the Archer/Hutson/Reeves consortium.

The Independent Valuation Report was prepared by Grant Samuel at the request of the independent directors of Abano as part of a preparatory process, in the case of a possible takeover. Shareholders are encouraged to read the full report, which is available on the Abano website www.abano.co.nz, including the assumptions on which it is based.

Overall, the annual meeting was a positive affair with investors, including Brian Gaynor and the NZ Shareholders Association, commending Abano's Board on the stance taken in regards to the Archer/Hutson/Reeves unsolicited proposal.

We were pleased to note that following the annual meeting, the standstill agreement between Hutson, Reeves and Archer Capital has been terminated and the undervalued proposal, which has been the cause of significant distraction and cost for the company, has been withdrawn.

ANNUAL MEETING

Shareholders passed all resolutions at the annual meeting:

- Authorised directors to fix the auditors' remuneration
- Re-election of Mr Trevor Janes as a director
- Re-election of Mr Ted van Arkel as a director
- Ratification of issue on 2 September 2013 of 1,554,622 ordinary shares in the Company
- Increase in total annual pool of funds that is reserved for flexibility to provide additional remuneration for non-executive directors, from \$50,000 to \$150,000



INTERIM RESULTS TO 30 NOVEMBER 2013

Abano Healthcare Group's interim result was at the top of the guidance range provided with a Net Profit After Tax (NPAT) of \$2.3 million, up from \$1.5 million in the previous first half year period, EBITDA of \$13.9 million and revenues of \$106.1 million. The results are based on unaudited management accounts.

Gross revenues⁽ⁱ⁾, which include the equity accounted audiology group and Australian dental revenues before payment of dentists' commissions, were \$136.2 million. Underlying earnings⁽ⁱⁱ⁾, which exclude non-cash items required to be expensed under the International Financial Reporting Standards (IFRS), were \$14.8 million at EBITDA, giving an underlying NPAT of \$3.0 million, up from \$2.7 million in the previous first half year period.

In line with the previous years, the directors have confirmed an interim dividend of 7.3 cents per share (cps). With earnings per share for this six month period increasing from 8.87cps to 12.56cps, the dividend will be paid out of the current period earnings. Abano's Dividend Reinvestment Plan will continue to be in effect.

In the first half of FY14, we increased investment into our growth businesses, particularly into building the organisational and clinical strength of our dental networks.

Including revenue from our equity accounted audiology business, over 50% of our revenues are now generated in Australia and the very strong New Zealand dollar impacted on our reported performance in the first half. There has been a year on year negative movement of approximately 13% in the New Zealand dollar when compared to the Australian dollar, with the exchange rate moving from \$0.79 in November 2012 to \$0.89 in November 2013.

This translated to a negative, non-cash \$7.5 million impact at gross revenue and \$0.7 million at Underlying EBITDA when compared to the previous first half year. In addition, the first six months of the previous year included \$0.9 million of revenue and \$0.1 million at EBITDA from our brain injury rehabilitation business, which was sold in July 2012.

The 2014 half year also included approximately \$0.4 million in extraordinary costs incurred by Abano in

relation to the unsolicited, indicative proposal from Archer/Hutson/Reeves, which reduced our reported EBITDA and NPAT. Had this proposal proceeded with notice of a formal Code compliant takeover offer, these costs would have been recovered from the bidder.

HY14 KEY EVENTS

- Completion of an oversubscribed \$18.5 million capital raising, providing sufficient capital for the foreseeable future
- Aotea Pathology signed \$26 million contract extension
- Acquisition of 10 dental practices providing \$18.8 million in additional annualised gross revenues, with a further three practices acquired since 30 November 2013 providing \$6.3 million in annualised gross revenues
- Received and rejected unsolicited, indicative, conditional, non-binding proposal from the Archer/Hutson/Reeves consortium. Proposal withdrawn on 28 November 2013
- Resignation of Peter Hutson from the Abano Board following unanimous request from the independent directors
- Grant Samuel independent valuation provides a value per share of between \$8.30 and \$10.05, for 100% of the business

MANAGEMENT COMMENTARY

Abano's two dental businesses remain our major revenue and income generators, and they collectively provided 69% of gross revenues⁽ⁱ⁾ for HY14, with 10 new acquisitions made in the period, and a further three since 30 November 2013, adding a combined \$25.1 million in annualised gross revenues.

We continued to invest heavily into building the organisational and clinical strength of our dental businesses during the past six months, including holding two large clinical conferences and making several new management appointments, which have

strengthened the Dental Partners senior management team in Australia.

The deteriorating economy and consumer confidence in Australia is now impacting on Dental Partners' revenues with year on year same store sales down by 8% in the period, due in part to the termination of the Australian Government Chronic Disease Dental Scheme (Scheme) in November 2012.

Revenues in HY13 received an artificial boost, unmatched in HY14, as outstanding treatments were brought forward and completed before the Scheme ended. Other Australian dental consolidators experienced this as well, with some reporting a very high exposure to the Scheme of up to 20 to 30% of their revenues. Because of Abano's strategy to concentrate on private revenue sources, Dental Partners' exposure was around 5% of total revenues.

Dental Partners has achieved a three year gross revenue compound annual growth rate of 36%, compared to the next highest Australian corporate consolidator which grew by 22%. The group also had one of the highest revenue to EBITDA margins of all the Australian dental consolidators and was ahead of the largest growth corporate at Return on Invested Capital during this period⁽ⁱⁱⁱ⁾. For more detail, view the Annual Meeting presentations at www.abanohealthcare.co.nz.

Lumino the Dentists achieved a compound same store revenue growth of 5.2% during FY12 and FY13, outperforming the New Zealand dental market which declined by 8.8% based on the New Zealand Dental Association surveys.

Following this strong growth, same store growth is currently flat in the first half of FY14, with estimates that Lumino is performing approximately 8% above the New Zealand dental market.

The accelerating acquisition programmes in New Zealand and Australia, when combined with soft same store sales, means that our dental gross margin in the period is slightly down. Pleasingly, despite the heavy investment in the first half of FY14 into management appointments and clinical conferences, Abano Dental is still expected to achieve the same full year gross margin as last year.

The significant size and scale of Abano's dental group is now starting to translate into increased negotiating power with dental suppliers, manufacturers

and laboratories. During the six month period, we negotiated a number of new arrangements that will continue to reduce cost in these areas.

Insight+Ascot Radiology, another of our growth businesses, is focused on building demand for the state of the art PET-CT scanning centre and the full service Millennium Clinic on Auckland's North Shore, both of which were greenfield start-ups with no instant revenues available. While the uptake of services at these clinics has been growing, a referrer review is underway to ensure that clinical specialists and their patients are taking full advantage of the leading edge diagnostic technologies and the depth of specialist radiologist skills that we have on offer.

Our audiology businesses in Australia and South East Asia continue to provide improving results. Pleasingly, Bay Audio in Australia is building on last year's 17% revenue growth, in a market where competitor groups are reporting declining sale volumes. We are seeing growing conversion of the approximately 6,000 self test touch screen leads generated on average every month in Bay Audio's high visibility retail locations. The leadership provided by the new management team is a key factor in the Australian business now trading close to break even at EBITDA, ahead of plan.

Aotea Pathology, Abano's joint venture pathology business, has signed a \$26 million contract extension to October 2015 and is working closely with the DHBs to ensure a long term, sustainable pathology service for the communities in the wider Wellington region. Following a successful Expression of Interest process, Aotea Pathology has now been invited to proceed into the Request for Proposal process once it is released by the DHBs in early 2014.

The Orthotics Centre continues to provide solid cashflows in the restricted public funded environment in which it operates and the management team are also making good progress in renewing and securing longer term tenure for their DHB contracts.

OUTLOOK

Our strategy is on track as we continue to build strong, sustainable businesses. With the exception of audiology, each of our existing businesses has increased their EBITDA contribution compared to five years ago.

Over this time, we have seen strong revenue growth and improving earnings performances and this is continuing as we maintain our focus on achieving better client and patient care, which in turn delivers enhanced investment value to our shareholders.

As we indicated at the Annual Meeting, the Archer/Hutson/Reeves proposal resulted in a number of approaches from other parties who expressed an interest in various potential initiatives involving Abano.

The process of building relationships, gaining comfort

with prospective business partners and assessing the long term value of potential acquisition opportunities is one which the Board undertakes with care and detailed analysis. At this time, the Board is not of the view that any of the opportunities presented ought to be advanced. However, the approaches received do provide the Board with additional confidence that its assessment of Abano's current and long term value potential remains appropriate and that Abano's strategy is well founded.

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- i Abano holds a 50% share in Bay International and therefore the results for the Bay group are equity accounted and not included in the reported revenue and EBITDA results. Gross revenue includes the equity accounted jointly controlled audiology businesses and Australian dental revenues before payment of dentists' commissions
 - ii More information on gross revenue, EDITDA, Underlying EBITDA and Underlying NPAT, all of which are non-GAAP financial measures and are not prepared in accordance with NZ IFRS, is available on the Abano website at www.abano.co.nz/underlyingearnings
 - iii Competitor analysis includes Dental Corporation, Pacific Smiles Group and 1300 Smiles and the data analysed has been extracted from published financial statements. The following assumptions have been made: DC commissions 30% of gross revenue to derive gross revenue from published net revenue, the 2011 DC information derived from both published statutory financials and Fortis investor presentations to derive an extrapolated 12 months for 2011. Pacific Smiles Group 2013 data is an estimate extracted from a Broker report. EBITDA used for all entities is NPBT adding back net finance expenses, depreciation and amortisation

AUDIOLOGY

A\$2 MILLION SALES TARGET EXCEEDED BY BAY AUDIO AUSTRALIA

The A\$2 million monthly revenue mark has come and gone for Bay Audio in Australia, with increasing numbers of customers using Bay's self-test touch screens to identify a hearing loss.

Since June 2013, Bay Audio Australia has been averaging approximately 6,000 touch screen tests per month, up from 4,500 tests per month at the same time last year. The strongest month on record was August 2013, on the back of the Brisbane Exhibition.

On the back of this increased performance, Bay Audio Australia will be launching a leasing product for hearing technology, the first of its kind in the Australian market.



The *Bay Bundle* product will be launched officially on Boxing Day and will allow customers to take home the latest, high tech hearing devices for less than \$5 per day, over a three year lease period, whilst providing full accidental loss and damage protection, and all batteries and maintenance for the life of the lease.

The launch of the *Bay Bundle* builds on Bay Audio's reputation as a leader and innovator in hearing solutions and is just one more way that Bay Audio Australia is changing more lives the Bay way.

ABANO DENTAL

FROM ME TO WE

The annual Lumino and Dental Partners conferences, held in recent months, are an important part of the 'organisational glue' that pulls our rapidly expanding dental networks together.

We consider these collegial opportunities as essential for clinical development, the sharing of knowledge and aligning goals for all stakeholders.

Dental Partners has now grown to such a size that the entire venue had to be booked out for the recent conference, with over 300 delegates, sponsors and guests. With a theme of "All Systems Go – Shoot for the Stars", delegates were motivated and inspired, as well as provided with the opportunity to expand their knowledge with a range of clinical presentations from highly acclaimed international dental experts, including Dr Andrea Shepperson from Lumino in New Zealand.

The bi-annual Lumino Lead Dentist Conference, held in October, was themed "From Good to Great: The Path to Success". The main focus was on providing the lead clinical team with the background and context for the challenges that are facing the industry and the opportunities to be embraced. There was overwhelming consensus that Lumino has performed well ahead of the market in recent years, on the back of strong management, and the lead dentists left the conference with a renewed sense of motivation and pride in the organisation we are building.



GROUP SIZE LEADS TO BETTER DEALS

The benefit of Abano's dental consolidation model is that scale drives economies and efficiencies. The significant size of Abano's dental group means increased negotiating power, and we now have the ability to enter into preferred supplier arrangements with dental suppliers, manufacturers and laboratories. We have recently negotiated a number of new arrangements, including a trans-tasman partnership with Fortune 500 company Henry Schein, which will provide additional benefits and efficiencies for our group.



AOTEA PATHOLOGY

\$26 MILLION CONTRACT EXTENSION

In October 2013, Aotea Pathology announced the signing of a \$26 million, one year extension of the existing community pathology contract it holds with the Hutt Valley and Capital & Coast District Health Boards (DHBs). The contract will now expire in October 2015.

Aotea Pathology's long history, deep understanding of the needs of the local communities and strong relationships with local referrers, patients and the DHBs provides us with unique insights into the Wellington pathology sector.

We have been working with the DHBs and have collaborated as part of a working group set up to identify the optimal pathology and laboratory service solution for the wider Wellington region.

The contract extension was agreed by Aotea Pathology to provide surety of service for patients and referrers while the review progresses. We are pleased to have been able to share our knowledge with the DHBs as options are considered and hope that this review may lead to longer term contract tenure which would be to the benefit of all parties, providing employment stability for our highly skilled staff and allowing for increased investment into the business.

Aotea Pathology has successfully passed the Expression of Interest evaluation and has been invited to proceed further into the next stage. We are looking forward to continuing to fully engage in the process to ensure the future of a professional and expert pathology service for people in the wider Wellington region.



ENGAGING WITH OUR COMMUNITIES

PATIENT CONFIDENTIALITY TOP OF THE LIST

Aotea Pathology recently set up and ran a training course for phlebotomists (blood collectors), inviting not only its own staff but also staff working in the local DHBs. A highlight of the course was a presentation from the Office of the Privacy Commission, who stressed the importance of patient confidentiality - something that is of the utmost importance to Aotea Pathology.

BETTER TESTING

A new pilot programme has been launched by Aotea Pathology aimed at optimising testing and is currently running in two Hutt Valley General Practices. By monitoring test requests and ordering patterns, Aotea's staff are able to work with GPs to educate them and encourage testing where it adds value and minimises unnecessary tests.

LAUNCH OF WEB ENQUIRY PORTAL

As part of its focus on offering the best service, Aotea Pathology has introduced Web Enquiry, a portal that allows GPs and clinical specialists to access a patient's historical results. This is particularly useful where a patient is seen for the first time by a private specialist, allowing quick access to the results from all previous tests undertaken.

RADIOLOGY

ADVANCES IN BREAST IMAGING

Insight+Ascot Radiology offers an expert and professional breast imaging service at its Ascot Central clinic, and works closely with breast physicians and surgeons across Auckland.

As a leader in breast imaging, Insight+Ascot Radiology recently provided an update on latest breast imaging technologies as part of Breast Cancer Awareness Month in October.

Breast cancer is the most common cancer for women with around 2,800 New Zealand women diagnosed every year. Most will survive five years or longer if the cancer is detected early enough but tragically, around 650 women die of the disease every year.

DIGITAL MAMMOGRAPHY

Over the past 15 years, breast imaging has expanded with the introduction of Breast MRI. However, there have also been significant advances in mammographic technology with the change from analogue to digital imaging. Not only is digital mammography less demanding, the images are readily accessible on the database system and easily transferable. In some cases, digital mammography has also been shown to be more effective in the diagnosis of breast cancers. Ultrasound remains a vital adjunct to mammography.

Proportionally, there are fewer radiologists involved in mammography than there were 15 years ago. However, there has been a significant increase in the body and level of experience of radiologists who have a sub-specialty interest in mammography and other forms of breast imaging.

BREAST MRI

MRI of the breast is not a replacement for mammography or ultrasound, but is an additional tool. When further information is needed, MRI is often recommended as a subsequent test. MRI scanning has been around for about two decades but has only been used in recent years for breast cancer diagnosis. The latest generation of MRI scanners use a stronger 3T (3-Tesla) magnet, resulting in better images which are more detailed and higher in resolution, with about 1,700 images created in approximately 45 minutes.

MRI is sensitive for detecting breast cancer and does find disease that cannot be found with conventional imaging methods.

BREAST BIOPSIES

The choice of modality used to obtain a biopsy depends on how best the lesion is seen.

- **MRI Guidance:** Insight+Ascot Radiology has one of the few systems for MR-guided biopsies in New Zealand. This uses the DynaCAD workstation to accurately guide the needle to the desired spot. There are masses and other abnormalities seen only on MRI (versus mammography and ultrasound), and the ability to biopsy these gives Insight+Ascot Radiology the complete package.
- **Mammography Guidance:** Using the digital mammography system, breast lesions can be biopsied using stereotactic guidance. This system uses computer guidance to guide the needle to the desired spot.
- **Ultrasound Guidance:** Ultrasound can also be used to guide a needle to the desired location to take a biopsy, and the progress of the needle can be viewed in real time.



ORTHOTICS

LIFE-CHANGING RECYCLING OF ORTHOTICS

The Orthotic Centre has been giving second hand and obsolete products a new lease of life by working with non-profit organisation, MEND, to help improve the mobility and independence of disabled people in developing countries.

MEND's mission is to 'promote self-help, not sympathy' and it has helped set up and run rehabilitation centres in Nepal, Kashmir, India, Indonesia, Philippines, Uganda and Ghana.

From moon boots to knee braces, spinal braces to orthotic shoes, the Orthotic Centre collects second hand and obsolete items and dispatches them to MEND, which then sends them onto the rehabilitation centres, where they are refurbished by workshop technicians and distributed to patients.

The orthoses are used in the treatment of people of all ages from young children to the elderly.

"We try to treat as many patients as possible by providing only one orthosis each, but sometimes we see special cases where we know we can make a bigger difference. We had an older man brought to the clinic who could barely walk; two hours later he was mobile again, thanks to the added support of two refurbished knee braces donated by the Orthotic Centre", said MEND Director, Rob Buchanan.

More information on MEND can be found at www.mend.org.nz or by email mend@xtra.co.nz



Ramesh, of Nepal, was born with bilateral club feet and came to the Hope Centre at age 12 years. MEND paid all the surgery costs for correction of his club feet and now he walks normally. After that he was given a micro-loan for further study.

Donated orthotics from the Orthotic Centre were an important part of Ramesh's rehabilitation.