

# Making Contact

ABANO SHAREHOLDER NEWSLETTER

ISSUE EIGHT JULY 2006

## Company Happenings

**At Abano, we are committed to full and transparent communication with our shareholders. We have listened to shareholders and advisers who have requested more information on the performance and direction of each of our operating sectors. In this newsletter, we have provided a more detailed look at the financial and operational performance of our businesses, and profiled some of the highly qualified and expert people who work within Abano.**

We have recently announced our financial results for the year ending 31 May 2006. The media announcement and details of the financial results are available on our website [www.abanohealthcare.co.nz/31may06release](http://www.abanohealthcare.co.nz/31may06release).

A detailed analyst presentation was also released to the NZX on Tuesday 01 August. This offers graphical information on the performance of the company and management comment on business operations. This is available on the website [www.abanohealthcare.co.nz/analystjuly06](http://www.abanohealthcare.co.nz/analystjuly06).

As recently announced, Abano's Diagnostics business has secured a new \$102 million, five year contract to provide community pathology services in the Wellington and Hutt Valley regions. We have delayed the

publication of this newsletter to allow us to offer our shareholders greater clarity with respect to this contract.

In the past few months we have been reminded once again, of the critical importance of privately funded – whether by ACC, private health insurance or personal payment – revenue streams for each of our businesses.

Community laboratory and pathology services in New Zealand remain one of the few medical and healthcare specialist areas in which nearly 100 percent of all income is funded by the Government. Currently, many District Health Boards (DHBs) around the country are reviewing their pathology contracts, with most requesting tenders from providers. Abano's Wellington and Nelson pathology businesses were both asked to tender for new contracts in their respective regions in early 2006.

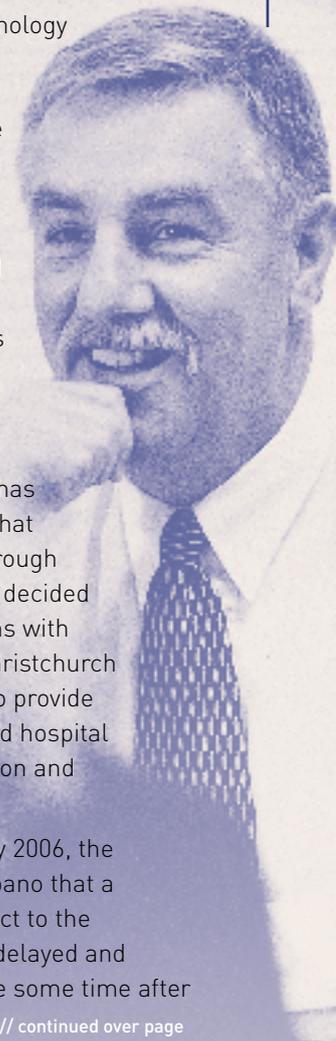
Abano's Wellington Medical Laboratory, which has provided community pathology services in the area for over 70 years, formed a joint venture with Sonic Healthcare's Hutt Valley diagnostics business, to tender for the community pathology contract in Wellington and Hutt Valley.

Alan Clarke CEO of Abano Healthcare

We were delighted to confirm that the joint venture was successful in gaining a five year contract to provide this community pathology service. The contract is scheduled to commence 1 November 2006 and, when combined with existing private pathology revenues, it will generate over \$110 million over the five years to the joint venture company. More information on the contract and the impact it will have on the Group's performance is detailed within this newsletter.

Nelson Diagnostic has also been advised that the Nelson Marlborough DHB (NMDHB) has decided to enter negotiations with Medlab South, a Christchurch based laboratory, to provide both community and hospital testing for the Nelson and Blenheim regions.

However, on 12 July 2006, the NMDHB advised Abano that a decision with respect to the contract had been delayed and would now be made some time after 31 August 2006. // continued over page



## Company Happenings // CONTINUED

They have requested an extension to the existing contract to facilitate their delayed decision process. This delay by the NMDHB follows extensive pressure from referring medical practitioners, patients, unions and the public over the decision, including an audit office enquiry into the process used in their request for tenders for these services.

Nelson Diagnostic is not a large operation in Abano's portfolio. Annualised revenues are \$3.3 million and it contributes around \$400,000 of operational Earnings Before Interest Tax Depreciation and Amortisation (EBITDA). It employs 18 Full Time Equivalent (FTE) employees and has net assets of \$0.5 million. Should the laboratory close, this could result in a maximum redundancy cost of approximately \$0.5m. The laboratory has been providing community pathology services to the Nelson and Marlborough communities for over 45 years, and we and the local medical community were very disappointed by the DHB's initial decision. We believe there are a number of alternatives for the laboratory, all of which will be explored in coming weeks.

From a Group perspective, for some time, our acquisition criteria has required that all new businesses must either have existing privately funded revenue streams or significant opportunities to grow their private paying customers. We have also been working steadily to identify and grow all private payment opportunities for businesses already within the Group, with excellent results.

For example, in our dental sector, private revenue has grown from 80 percent in 2005 to 92 percent in 2006 on an annualised basis. Pathology has increased private revenues from six percent in 2004 to 10 percent in 2006, with further significant increases expected in the new operating environment of private specialist testing.

On 28 July 2006, Abano Healthcare Group posted the financial results for the year ending 31 May 2006, under the new NZ International Financial Reporting Standards. There was a pleasing improvement in performance, when compared to the previous financial year, with Net Profit After Tax up 60 percent to \$1.6 million.

Consolidated revenues were down 2 percent to \$65.2 million and Earnings Before Interest Tax Depreciation and Amortisation were down 11 percent at \$6.7 million, reflecting the three month drop in revenue between the sale of ElderCare in July 2005 and the acquisition of Bay Audiology and the Orthotic Centre in October 2005.

We are focused on increasing the balance of private to public funding providers in our portfolio. Recent acquisitions over the past year have increased our annualised private revenue from 33 percent to 42 percent - including ACC payments, it has increased from 48 percent to 67 percent - and we will see this percentage increase in the future.

The Abano board remains committed to growing earnings, through both organic and acquisition opportunities, primarily within the current sectors of the company. The reshaping of Abano's portfolio in the last financial year now places us in a strong position to continue to improve our core operating performance and the return on investment for our shareholders funds employed.

## ABANO GROUP // ORGANISATIONAL CHANGES



Abano has re-organised its management team in the last few weeks with Richard Keys, our Chief Financial Officer, taking on more operational responsibilities to compliment his CFO duties. Richard is an experienced senior executive, having previously worked for one of the "top four" accounting firms and subsequently employed as the CFO and then CEO of a privately owned retirement village group. Prior to joining the Abano team, Richard spent two years working at the Counties Manukau DHB in a senior planning and operations role. He joined Abano in February 2002 as Business Development Manager before being promoted to Chief Financial Officer in August 2003. Richard sits as a director on all subsidiary boards and attends all Abano Group board meetings at the invitation of the board.

## AUDIOLOGY // UPDATE



Andy Tapper has been appointed to General Manager Dental following the resignation of Frank Janssen in May. Andy, a qualified lawyer with accounting and economics degrees, is an experienced business development executive. Prior to joining Abano, Andy worked as a lawyer for six years in New Zealand and the UK, including two years as a senior solicitor in Russell McVeagh's corporate team. He then moved to the mergers and acquisitions team for PricewaterhouseCoopers, followed by a year with the Carter Holt Harvey business development team. Andy is currently General Manager Business Development for the Abano Group and he has accepted the dental position to provide leadership to the sector. Andy's acquisition and development skills will be fully utilised in acquiring dental practices to meet our strategic growth targets for this sector. The dental strategy is discussed in more detail later in this newsletter.

**We have made good progress in Bay Audiology over the past ten months. This started with the appointment of Simon Melville as our new general manager and was followed with the opening of three clinics - Newmarket in Auckland, Christchurch and Taupo.**

A new advertising campaign has also been launched to promote our partnership with Oticon, a leading supplier of digital hearing devices, and we are pleased to be able to share a special offer with our shareholders in this newsletter. In addition, Maggie Barry, the television face for Bay, has signed on for another term with us.

Bay also signed a new contract with ACC in recent weeks, which will now continue to provide referral certainty to the national group. We expect to see an increase in both ACC and private sales in the new financial year through organic growth and the planned opening of several new clinics, as well as new initiatives for both full and visiting<sup>1</sup> clinics. Bay's established track record and growth strategy are set to continue, with several organic and acquisition investment opportunities currently being assessed.



### SIMON MELVILLE GENERAL MANAGER BAY AUDIOLOGY

Simon Melville, a New Zealand born and trained Audiologist, has returned from the UK to take up the role of General Manager for Bay Audiology. Simon completed his New Zealand qualification 12 years ago and worked for five years in clinical practice in Auckland and Christchurch before moving to the UK.

During his time here and in the UK, Simon developed a passion for working with cochlear implants, particularly with children. Since completing an MBA at Henley University and returning to New Zealand he says Audiology practice has developed a level of maturity that was not here when he left. "Audiology and hearing problems have finally come out of hidden offices into the High Street. This is largely as a result of the work Bay has done in promoting a positive view of people with hearing loss, showing hearing loss is not something anyone should be ashamed of."

<sup>1</sup> Visiting clinics are clinics where a Bay Audiology audiologist provides a regular scheduled clinic, often one or two days a week in an adjacent area. These visiting clinics then provide a basis to either grow a small regional market or to provide an entry into a new area.





## DIAGNOSTIC // UPDATE

### // PATHOLOGY

Our pathology laboratories continue to perform well under their existing contracts.

Nelson Diagnostic is waiting for the final decision from the NMDHB which is now expected sometime after 31 August 2006. At the time of writing this newsletter, NMDHB has requested to extend the current contract. The delay in the decision process follows extensive pressure from the local medical community and the general public. A petition with over 5,000 signatures was presented to the board, expressing concern with respect to the DHB's decision to award the region's public and community pathology contract to Medlab South. We believe there may now be a number of alternative options available for Nelson Diagnostic, all of which will be explored in coming weeks.

Also as announced, Medical Laboratory Wellington, as part of a joint venture with Sonic's Hutt Valley Diagnostic, has secured a new five year contract in the expanded region.

The Capital and Coast, and Hutt Valley DHB contract will commence on 1 November 2006 and generate revenues of \$102 million over the five year contract period. In addition, there is additional publicly funded revenue for cytology screening under a separate contract with the Ministry of Health. Both laboratories in the joint venture also have growing private revenue streams for non-Government funded pathology testing, including medical screening and immigration testing. This additional work is expected to generate an additional \$8 million to \$10 million over the five years of the contract period.

Separately, included within the contract, the DHB has announced that they will no longer fund tests for patients referred by private medical specialists; therefore, this testing will generate additional private income for the joint venture over time.

Abano will hold 55 percent of the equity in the joint venture company. To enable a smooth transition, while continuing to provide the 24 hour laboratory service throughout this period, work has already commenced to merge the two main laboratories onto one site at the Medical Laboratory Wellington premises in Courtenay Place, with an additional floor currently being fitted out. The best practice from each laboratory will be used to create an efficient and cost beneficial entity to continue to provide leading edge pathology services to the Wellington, Hutt Valley and Kapiti Coast regions.

Integration and merger costs will impact in the first year of the joint venture's operation. After the expensed one-off merger costs in year one, estimated at between \$800,000 and \$900,000, we expect the joint venture to provide annual operating Earnings Before Interest Tax Depreciation and Amortisation (Op-EBITDA) in the range of 14 to 15 percent of the joint venture's annual revenues.

While this is a reduction in the returns achieved historically, the new entity will still continue to meet our investment criteria, with a return greater than the weighted average cost of capital for this business sector.

### // RADIOLOGY

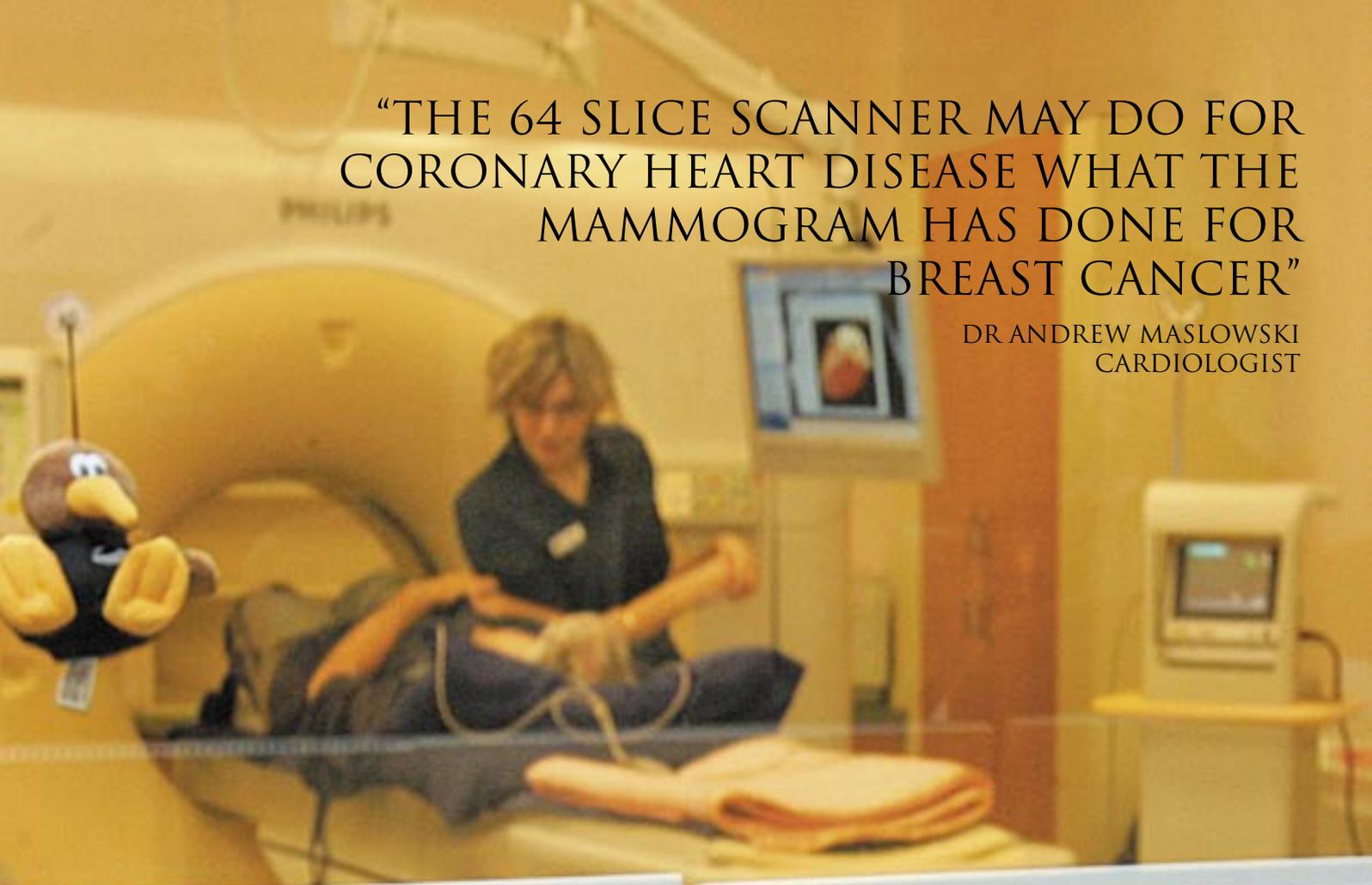
Ascot Radiology, an associate company which is 40 percent owned by the Abano Healthcare Group, is also achieving good results with strong referrals setting new records for patient numbers and procedures completed. In keeping with the practice's philosophy to be a leader in its field, we will continue to upgrade and invest in new technologies and equipment, such as the recent acquisition of the new generation 64 slice CT scanner.

Plans are in place for Abano to increase our shareholding in Ascot Radiology to 75 percent in May 2007 with a

commitment to expand our partnership shareholding with a group of key radiologists, including the two founding partners of the practice. This will lead to the consolidation of this investment into the Abano balance sheet as a subsidiary. Radiology derives 49 percent of its income from the private payment by clients from referring specialists with the balance derived from ACC referrals and maternity benefit payments for pregnancy ultrasound examinations.

# “THE 64 SLICE SCANNER MAY DO FOR CORONARY HEART DISEASE WHAT THE MAMMOGRAM HAS DONE FOR BREAST CANCER”

DR ANDREW MASLOWSKI  
CARDIOLOGIST



## NEW 64 SLICE CT SCANNER FOR ASCOT

Ascot Radiology has recently acquired the world's most advanced CT scanner. With an investment cost of \$1.4 million, the 64 slice Phillips Brilliance CT scanner was installed in June 2006, making this technology available for the first time in the Auckland region.

The new scanner provides unique and leading edge diagnostic services for referring specialists from around New Zealand, for procedures such as a non-invasive diagnostic alternative to coronary angiography.

Ascot cardiologists will also become founding shareholders in the new technology in partnership with Ascot Radiology.



## REHABILITATION // UPDATE

In our residential brain injury service, improvements in service quality and positive outcomes from external audits have led to an increase in referrals from funders. In addition, the announced residential fee increases from ACC took effect in December 2005, and we are now seeing a steady improvement in results from that part of the business.



The community out-patient brain injury service is currently being restructured and re-evaluated, with the intention to focus services into more concentrated regions with contracts that deliver better margins. As part of this restructure, branches in three regional areas have been closed. Overall, the brain injury rehabilitation businesses are looking to improved trading for the new financial year after a difficult eighteen months.

The Orthotics Centre business continues to track to expectations, with a new marketing plan focusing on private revenue opportunities to be implemented in coming months. To assist with this initiative, the company commissioned an independent study of the opportunity by Shirley Hooper, an experienced retail consultant. We have also appointed a new and highly experienced Chief Operating Officer, Wayne Howett, who brings a depth of management and rehabilitation experience from the USA. Wayne has already made a positive impact on the business as he works closely with John Clark, the company's founder.

## // NAMING OF NEW RESIDENTIAL REHABILITATION FACILITY

On Tuesday 11 April, a powhiri was held to welcome new staff and to celebrate the naming of Ranworth's Hamilton residential facility with an identity that links it to Poutama, our South Auckland base.

**PouRahui** (sister to Poutama) is the new name of the Hamilton facility, which was formerly known as Dey Street.

The "Pou" part of the name provides the link to Poutama – a "Pou" is a pole that depicts strength and a solid foundation. The "Rahui" part of the name signifies the gathering together of people.

## DENTAL // UPDATE

**As previously mentioned, Andy Tapper from the Abano Group office has been appointed General Manager Dental, where he will provide acquisition expertise and leadership as Lumino Dental continues to grow.**

The focus continues to be on expanding the Lumino network across the country and integrating new practices into the group. Since June last year, Lumino has grown by the addition of seven new practices, and the full annualised financial impact of these will be seen in the 2006/2007 financial year. Currently, there are 20 practices nationwide with over 60 clinicians including 47 dentists and 14 hygienists and clinicians, supported by 108 dental assistants and support staff.

We are on track to achieve the goal we set in 2004 to double the size of the group from 14 practices to 28 practices by the completion of the 2007 financial year. On average, Lumino is now gaining one new practice every two months and we are on target to reach 40 practices by 2009.

The investment model is to continue our acquisition growth of high quality practices throughout New Zealand. These practices join the group under a three to five year

earn out formulae and Lumino provides centralised back office support. This centralised support office provides accounting, purchasing, marketing, training and IT services to each practice. The relative fixed overhead of the support is then spread over the growing number of dental practices in our national dental network, allowing us to achieve economies of scale as we grow.

Lumino offers access to the Prime Practice Management system. Prime is a specialist dental training scheme that enhances clinical practice and the dentists' earning capacity. All dentists are remunerated on commission basis, taking a percentage of their net billings with the balance attributed to Abano.

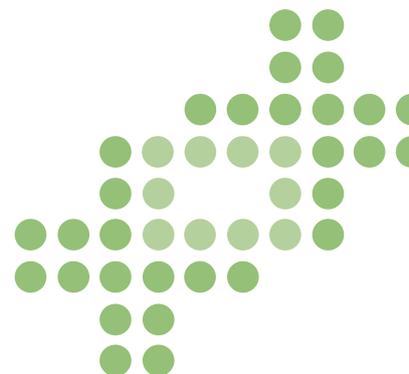
With these initiatives put in place over the past three years, the group's average revenue per dentist per clinical day has now increased from \$1,300 three years ago to \$1,863 currently. The New Zealand average is approximately \$1,700.

We have also exceeded our two year goal, set in 2004, of increasing the private revenue percentage from 78 percent to between 85 and 90 percent by 2006; annualised private revenue is now in excess of 90 percent.

## // LUMINO INAUGURAL DENTAL CONFERENCE

Lumino Dental held New Zealand's largest private dental conference in late June, with more than 60 Lumino dentists and dental staff in attendance. The conference featuring leading international and New Zealand dental specialists and guest speakers, aimed to educate, inspire, and provided opportunities to both challenge and inform participants. The conference programme, which was fully accredited by the Dental Council for the group's Dentist

Continuing Medical Educational requirements, was also the largest ever held by a private dental business in New Zealand, and is in keeping with Lumino's philosophy to be the country's leading professional practice and promote continuing education for all our staff.



# The hearing aid you'll actually want

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**FREE DEMONSTRATION**

## Hear clearly wherever you are

If you need a little help with your hearing, but thought hearing aids were large and obtrusive, the new Oticon Delta will amaze you.

Delta is a new generation of hearing aid that's so small and discreet it virtually disappears, yet is so stylish you'll want to show it off. Its tiny, lightweight shell comes in a range of contemporary colours, for the ultimate designer effect.

Delta's high-tech qualities go beyond miniaturization to deliver clear, comfortable sound whatever the environment. Again you can enjoy parties, meetings, walking outdoors and lots more. Delta can not only accentuate speech, it can seek out and focus on the source of the sound you want to hear.

The clarity and natural sound of this digital hearing system is so different from traditional hearing aids. Delta is already changing the lives of people around the world, allowing them to enjoy clearer and better hearing, as well as a sense of style.

Now you can experience the difference Delta makes. Just contact the friendly staff at New Zealand's largest network of hearing experts.



"The days of being embarrassed about wearing hearing aids are long gone" *Maggie Barry*

**Call Bay Audiology to arrange your no-obligation FREE Delta demonstration and FREE hearing screening test.**

**CALL NOW 0800 800 854**

Offer valid to 31 August 2006

Freephone 0800 800 854  
[www.audiology.co.nz](http://www.audiology.co.nz)



**BAY AUDIOLOGY**  
THE HEARING EXPERTS

## CAN YOU HELP US REDUCE COSTS // AND SAVE THE ENVIRONMENT

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

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

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

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

### REGISTRATION IS SIMPLE

Simply register online at :

[www.abano.co.nz/shareholderservices](http://www.abano.co.nz/shareholderservices)

If you are a shareholder and want to register online, you will need your shareholder number. This is printed on the front of the envelope this newsletter arrived in.

Please only register if you require email notification.

If notification is NOT received, you will continue to automatically receive printed material by post.

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

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

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