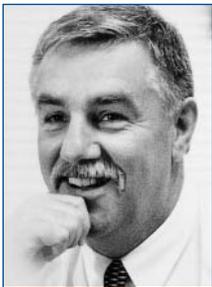


Making Contact

Abano Shareholder Newsletter

Welcome to issue three of Making Contact, our Company newsletter. This provides an update of corporate events as well as news from each of our operating sectors.

Company Happenings



Alan Clarke
CEO of Abano Healthcare

NEW NAME

Since our last newsletter, the Company has announced its new name – Abano Healthcare Group Limited. The ElderCare New Zealand brand will be retained for our Aged Care sector and will operate alongside our other brands – Ranworth Healthcare, Burtons Healthcare and Health Partners in the Rehabilitation sector; Medical

Laboratory Wellington and Nelson Diagnostic Laboratory in the Diagnostic sector and Geddes Dental Group in the Dental sector.

COMPANY PERFORMANCE – EXCERPTS FROM THE AGM

Our annual meeting was held on 27th November 2003, in the Pakuranga Hunt Room, Ellerslie Convention Centre and the following is taken from the chairman's and managing director's addresses.

"We have experienced a softening performance in the first five months of the new financial year, especially in the Aged Care and Rehabilitation sectors. This means our first half performance is expected to be up at EBITDA but down at NPAT in comparison with last year's first half.

We remain confident that the softening experienced in the first few months will firm through completed action, committed contracts, agreed price increases and the opening of new facilities and so we believe that we are tracking on target to meet our full year guidance as announced on 10th October this year.

Aged Care has come under some cost pressure as we adjust to the new and more demanding environment of older and more dependent clients, and occupancy was adversely affected for

the first few months of this year. To improve occupancy we have focused on upgrading and expanding our facilities, with 37 new rooms coming on stream at Whitianga and Takinini in the second half of this year, and renovations and refurbishments at Eldon Lodge, Riverview, Gracelands and Elmswood completed or substantially underway.

Rehabilitation has had to adjust to new contract parameters with ACC that have depressed referrals in the first half. However, following resolution of the contract terms, we believe we will see an improving performance into the second half. In addition, there are increasing referrals from the MoH and when combined with the new Burtons and Health Partners acquisitions, an overall lift is expected on last year's results.

Diagnostics has recently negotiated a new contract with the Wellington DHB and negotiations are underway with the Nelson DHB with respect to the Nelson Laboratory's contract, where a number of alternatives are being explored. This should lead to a stable performance during the financial year with a full year result that is in line with the results achieved last year.

Dental has now produced a steady month by month positive operating profit for the last five months and the business is settling in, with a new dental and financial IT platform being installed and expanded branches and operations, including new management. We are expecting the sector to make a good positive contribution in its first full year, while absorbing expansion opportunities.

We have come along way from our AGM in November 2000 when we announced our plans to enter into the healthcare and medical services market. It was a general statement and we had to ask shareholders to be patient while we addressed the necessary structural changes and explored acquisition growth opportunities.

The Company at that time had core revenues of under \$20 million, core-operating profits of around \$3.8 million and a

Company Happenings cont...

balance sheet that grew to over \$52 million in debt financing. Today, it is a very different organisation, with revenues for the year ended 31 May 2003 of \$58.3 million with a core EBITDA of \$8.5 million and a return to positive NPAT with a modest core result of \$0.7 million.

The Group has achieved an average revenue growth rate of over 30 percent per year, for the last three years and we remain confident of our future and committed to our established growth policy, increasing our bottom line performance and the return for our shareholders.

ANNUAL MEETING RESULTS

- The Company's annual report and audited Financial Statements for the year ended 31 May 2003, as they appeared in the 2003 annual report were accepted as true.
- PricewaterhouseCoopers was reappointed as auditor of the Company and the directors were authorised to fix their remuneration.
- Mrs Alison Paterson was re-appointed as a director of the Company in accordance with the Company's constitution. Alison was appointed to the board in October 2002 following our last AGM and as such, she retired and, being eligible, offered herself for re-election.
- Dr Clinton Teague was re-elected as a director of the Company in accordance with the Company's constitution. Clint, who although re-elected last year, retired again by rotation, to fill our constitutional requirement to have a third of the directors available for re-election, and being eligible offered himself for re-election.
- Shareholders authorised and approved the issue and allotment by the Company of up to 53,000,000 fully paid ordinary shares in the Company on the terms and conditions set out in the explanatory notes, to one or more habitual or institutional investors by way of a placement.

As shareholders will be aware, your board has provided additional assurances with respect to Resolution 4 over the last two weeks. The board appreciates and recognises the loyalty and patience of all our base shareholders. Our primary focus is to improve the earnings per share for existing shareholders with every decision we make and to provide existing shareholders with a priority in raising new capital.

The board of Abano have a policy that our first priority is to raise capital from our existing shareholders wherever possible. But from time to time we may want to introduce new shareholders to the pool, or issue shares to people who wish to sell their businesses to us, or access a larger amount of capital quickly to take advantage of an

opportunity that will benefit all shareholders. I stress again that the test we make is that the new capital must improve the position of all our shareholders first and foremost in the long term.

We are very conscious of the dilutionary effect of new shares being issued and we are fully focused on improving the returns to all shareholders with any decision we make. Therefore, the board has made an additional commitment as follows. In the next six months, under the terms of Resolution 4, the board undertakes that if we do place more than 15% of the shares with new investors, that we will make all shareholders an offer to participate on the same terms and conditions as that or those investors received above the 15% level.

The threshold of 15% is that set by the Stock Exchange for all listed companies. The Exchange changed the level on 29th October 2003, when they increased the amount a company can place without going to shareholders for approval from 10% to 15%.

At this time we do not anticipate any opportunity arising prior to the completion of our funding review.

- It was agreed that the Company constitution would be amended by deleting clause 19.4.1(b). Clause 19.4.1(b) of the Company's constitution provides for compulsory retirement of directors once they reach 72 years of age.

The meeting ended after an hour with refreshments for the 75 people in attendance.

Dental



Implementing a new IT platform, researching key market opportunities and strengthening the management team have been key objectives in the past six months for Geddes Dental Group, Abano Healthcare's operating business in the Dental sector.

SOFTWARE OF EXCELLENCE

After many months of research and investigation, Geddes has contracted to use the EXACT software provided by locally listed company Software of Excellence. As well as utilising the existing software platform, Geddes will also be working with SOE to develop new functions and features to further maximise the usefulness of the software platform. The EXACT system will give Geddes a number of advantages, particularly in the areas of clinical governance, business management and database marketing. It is expected that the system will be fully implemented and operating across the network by February 2004.

NEW APPOINTMENTS

The management team at Geddes' head office has been expanded, with the appointment of Gale Wieland as marketing manager and Peter Nouwens, who is on contract to help integrate new financial software into Geddes' operating systems. Gale has a strong background in retail marketing and will be responsible for continuing the innovative and successful marketing initiatives for which Geddes is famous. In addition, the contract with Robin Cooper, operations manager, has been extended.

ADOLESCENT MARKET

In the past six months, the Ministry of Health has provided funds for an Auckland manager to be employed, with the specific task of increasing adolescent enrolments in its free adolescent dental scheme. As the largest provider of these services in Auckland, Geddes is being encouraged to increase the number of patients it treats in its school based mobile clinics. In support of this, Geddes has developed a number of initiatives to promote the mobile service and increase the number of schools at which it operates.

Rehabilitation

ACQUISITIONS

Abano's Rehabilitation sector has expanded with the acquisition of Burtons Healthcare and Health Partners on 31st July 2003. The acquisitions are in line with Abano's strategic objective to grow both new and existing healthcare and medical sectors through investment in successful businesses and organic expansion.

Burtons Healthcare was founded in 1992 to provide non-residential brain injury rehabilitation treatment to clients, with Health Partners set up a year later to offer brain injury assessment and concussion clinic services.

Abano Healthcare Group owns 100 percent of Ranworth Healthcare, New Zealand's leading residential brain injury rehabilitation practice. Burtons Healthcare and Health Partners will operate alongside the Ranworth brand, strengthening Abano's presence in both the North and South Islands, as well as extending community assessment/ treatment and concussion clinic services for clients with brain injury. Brand wise, Ranworth is seen as being strong in delivering residential services and Burtons and Health Partners are seen as being strong in delivering community based services.

The acquisitions allow for a number of synergies within the Rehabilitation sector. These synergies include a sharing of human resources specifically for peer supervision, providing a chance to extend the health professional supervision network, and also an opportunity to share intellectual property to really make the two organisations leaders in the brain injury field.



ANNUAL ART COMPETITION

Ranworth Healthcare runs an annual art competition for clients which aims to support them to achieve and be acknowledged within their own community. This is the sixth year the optional competition has been run with over 30 clients plus staff and family invited to enter.

Clients can choose to enter art pieces in different categories, including painting, sculpture and crafts, and can work on their entries for up to two months. The competition is judged by art experts and is seen as a time to celebrate success and achievement.

The 2003 competition was judged in November 2003 and the winner was Paul Huffman, known as "Paulus", who painted an abstract piece of art titled "Angle Earth". Up until recently Paulus lived in a Ranworth facility in Hamilton but he now resides independently in the community with the support of Ranworth therapy and living skills coaching staff.

Aged Care

Certified ISO 9001 by



To maintain its position as one of New Zealand's leading providers of aged care services, ElderCare New Zealand has an intensive quality programme, covering both staff and facilities. By committing to high levels of professionalism and expertise and ensuring all facilities are of a quality standard, ElderCare attracts patients both through Government and support agency contracts, as well as local residents looking for friendly and expert care.

QUALITY STANDARDS

The Ministry of Health has introduced the new Health and Disability Sector standards (HADS) to ensure good, safe practice in relation to organisational management, service delivery, environment and customer rights. All ElderCare facilities are currently undergoing audit of their systems and procedures, and have been receiving high levels of commendation from independent auditor, BVQI. Five facilities have already been received HADS accreditation, with the remaining facilities to be audited over the next six months. Simultaneously with HADS, all ElderCare facilities are being audited under the ISO 9001 standards and have achieved excellent results.

RESEARCH

ElderCare New Zealand is becoming a business with which organisations are choosing to carry out research partnerships. The group is currently involved in three key research projects, which aim to improve the quality of care within the facilities, as well as providing benefit to the wider aged care sector. The Promoting Independent Living study (PILs) is proving extremely successful, with the first residents to be involved in the programme now living healthier and more independent lives. The programme seeks to determine scientifically proven methods of improving quality of life for older people in long-term residential care, through goal setting and simple physical exercises.

Research into the relevance and effectiveness of the DVFREE programme is also being conducted at five ElderCare facilities, in partnership with the Domestic Violence Centre. DVFREE equips employers and employees to recognise and deal with problems associated with the intrusion of domestic violence into the workplace. In most workplaces, especially those with large numbers of women employees, domestic violence is a hidden cost to both employers and employees. Lost productivity, time off, and staff turnover can be reduced by offering free confidential support and information to staff. DVFREE complements other 'best practice' programmes like EAP, harassment prevention and stress reduction.

The third research project involves ACC and internationally renowned researcher, Meg Butler, and commenced in November at Elmswood Lodge. The ACC Hip Protector Demonstration Project aims to reduce hip fractures by the use of hip protectors, encouraging residents to wear hip protectors and to determine issues around "wearer satisfaction". All of the residents have been issued with the hip protectors and special underwear and staff are attending customised training sessions. The ACC Hip Protector Demonstration Project offers an exciting opportunity to help reduce hip fractures among residents in our homes.

FACILITY UPGRADES AND EXTENSIONS

The addition of a new wing at Whitianga Continuing Care has now been completed and the extra beds are being utilised by local residents and GP referrals. Riverview Lodge has been refurbished over the last few months, and Eldon Lodge refurbishment has started and will be completed by June 2004, providing more appealing and pleasant surroundings for patients. Currently underway is the extension of the specialist dementia services at Takanini Lodge, which is expected to be completed in March 2004.

SUB ACUTE CONTRACT

ElderCare's Gracelands facility has recently signed an agreement with the Hawkes Bay DHB to trial the use of a continuing care hospital to provide services to people discharged from acute care but who are not quite ready to go home. The trial is progressing well and ElderCare is well positioned to continue providing the services should the DHB decide to continue with the scheme, as well as attracting similar contracts with other DHBs.

Diagnostics



WORLD CLASS STANDARD

In August 2003, Medical Laboratory Wellington was the first in the world to be accredited to the new international ISO standard for medical laboratories. The Minister of Health, Annette King officiated and CEO of IANZ, Dr Llew Richards, presented Medical Laboratory Wellington with its accreditation to the new NZS/ISO 15189 standard.

The Minister congratulated staff and management on the significant achievement and commented that the accreditation tied in with the Government's emphasis on improving safety and quality in our health and disability system.

The NZS/ISO is a new international standard, which has been designed specifically for medical laboratories. Previously, medical laboratories were

accredited under the New Zealand Code of Laboratory Management Practice, a generic standard for all types of laboratories.

The ultimate aim of ISO 15189 is to improve patient care by setting internationally consistent quality standards for the conduct of medical laboratory testing. The standards cover all aspects of medical testing from the taking of specimens to the final reporting of results.

Chief Executive of IANZ, Dr Llew Richards, praised Medical Laboratory Wellington for their achievement and was very complimentary about the business' operations and staff.

"The Medical Laboratory team represent some of the most experienced and capable in New Zealand and are clearly the organisation's greatest asset, and the new standard will place this laboratory in the vanguard of quality and technical management advancement for medical testing laboratories, both nationally and internationally", he said.

The standard was first introduced in New Zealand on 1st April 2003 and IANZ immediately began assessing medical laboratories against it. It can take a medical laboratory more than a year to prepare for accreditation, plus a further three months to fulfil any conditions imposed. The actual assessment process takes up to two weeks and may involve a team of up to 15 technical expert assessors.

Compliance with the standard and demonstration of technical competence is currently voluntary. However, the Ministry of Health, which funds the majority of diagnostic testing in New Zealand, has made accreditation a contractual requirement and the standard is expected to become compulsory by the end of 2004. The existing New Zealand Code will be phased out before January 2005.

Healthcare Market Update

The Ministry of Health has drafted and implemented a number of new initiatives in the past six months, many of which impact in some way on our four operating sectors. The most high profile of these is the Health Practitioners Competence Assurance Act which was passed into law in September 2003. A second initiative, which has considerations for our operating businesses, is the development of a systems approach for the NZ health and disability sector – Improving Quality (IQ).

HEALTH PRACTITIONERS COMPETENCE ASSURANCE ACT 2003 (HPCA)

As discussed in our May newsletter, the HPCA is intended to provide a framework for the regulation of health practitioners in order to protect the public where there is a risk of harm from the practice of the profession.

The objective is for the framework to cover a diverse range of health professional occupational groups and when fully in force in September 2004, the Act will repeal 11 occupational statutes governing 13 professions.

Having one legislative framework will allow for consistent procedures and terminology across the professions. The principal purpose of protecting the health and safety of the public is emphasised and the Act includes mechanisms to ensure that practitioners are competent and fit to practise their professions for the duration of their professional lives. Commencement of the Act is staggered between October 2003 and September 2004.

The Act impacts on Abano's operating businesses in a number of ways:

- In the Dental sector, a new dental council will be formed and will be responsible for the registration, training, zones of practice and discipline of its constituent dental professions. This will have a major influence on the dental industry over time.
- Increased cost of clinicians' annual practising certificates and professional development of staff.
- More post graduate training and competence testing.
- Requirement to collect information and attend professional development opportunities.
- Greater definition of roles and areas of expertise for practitioners.
- Increased flexibility for some practitioners within the healthcare workforce.
- Requirement for human resources personnel to remain abreast of industry developments and assist managers in creating suitable development programmes for all staff.

The board and management of Abano Healthcare Group believe the introduction of HPCA is beneficial to the healthcare market and our businesses. It is already standard

policy to ensure that all relevant staff hold a practising certificate, belong to their professional body and maintain updated knowledge in their particular field of expertise. In addition, training programmes within each sector have been developed to fit with the framework of the HPCA. This will ensure that the professional competence of our staff is recognised at industry level.

IMPROVING QUALITY

Improving Quality (IQ) is a systems approach for the New Zealand health and disability sector, which gives further focus to the importance of quality. It is a commitment to supporting continuous quality improvement by each person who works within the system, by the people cared for and supported by the system, and by the system itself.

One example of the systems approach recommended by the Ministry of Health can be seen in the Aged Care sector, with the new Health and Disability Sector standards, which all health care facilities are required to attain by October 2004. These standards aim to ensure good, safe practice in relation to organisational management, service delivery, environment and customer rights. In addition, certification under these standards includes compliance with two other sets of standards: Infection Control and Restraint Minimisation and Safe Practice.

All of the facilities within Abano Healthcare's Aged Care sector – ElderCare New Zealand – are currently being audited by independent auditor BVQI and are receiving excellent results. BVQI have commended the aged care hospitals and homes on their strong commitment to customer satisfaction, quality of work and service, continual improvement programmes and the excellent implementation of the quality system to date.

Ranworth Healthcare in our Rehabilitation sector is enrolled with Quality Health and is rapidly working towards certification under these standards. A project is currently underway to establish synergies between the Quality Health programme and ISO 9000, which is used by Burtons Healthcare. This will allow streamlining to occur across all our rehabilitation businesses.

HEALTH SCREENING AMENDMENT BILL

The Health (Screening Programmes) Amendment Bill was introduced into Parliament on 16th May 2002, and completed its first reading in Parliament on 18th February 2003.

The Health (Screening Programmes) Amendment Bill will implement several key recommendations from the Ministerial Inquiry into the under-reporting of cervical smear abnormalities in the Gisborne region (April 2001), which sought changes to section 74A of the Health Act 1956.

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