

Making Contact

ABANO SHAREHOLDER NEWSLETTER

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Company Happenings

Alan Clarke CEO of Abano Healthcare

It has been a busy start to 2007 for Abano with a number of new acquisitions, ongoing organic growth of our businesses and a focus on investor relations.

CONTINUING GROWTH

As previously announced, we have seen continued growth of businesses across our portfolio, with a number of new acquisitions in the Diagnostics, Dental and Audiology sectors helping to strengthen the Group's performance. These new acquisitions and organic expansion, include:

- Acquisition of three dental clinics - Merrilands Dental Centre and Smile Solutions, both in New Plymouth and Absolute Dental in Lower Hutt;
- The acquisition of two New Zealand audiology clinics - one in Taranaki and one in the Waikato region - and the opening of two new branches in Christchurch and Hastings;
- The entry into Australia with the acquisition and opening of clinics in and around Brisbane;
- The acquisition of a second radiology business, Greenlane Imaging in Auckland; and

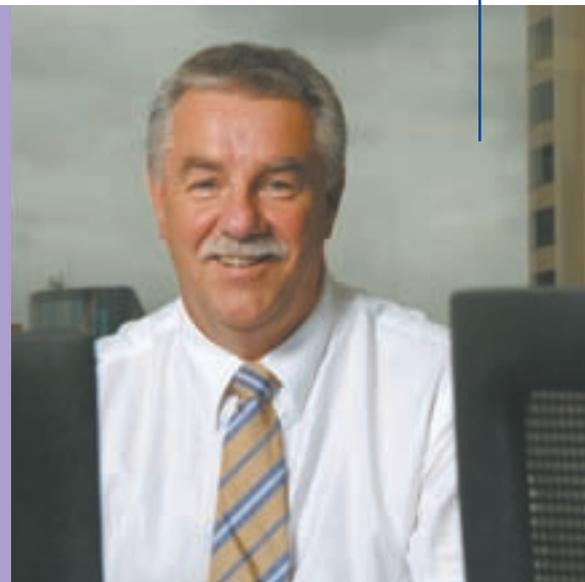
- The exercising of an option to acquire a further 40 percent of Ascot Radiology Limited.

INVESTOR RELATIONS

Existing and future investors in Abano are a core part of our management focus. To that end, Richard Keys, our chief financial officer, and I have spoken at a number of investor and shareholder presentations this year, explaining Abano's business activities and direction. Many of these presentations have been organised through broker channels, including Forsyth Barr, ABN Amro Craigs and First New Zealand Capital. In addition, we also recently presented to the Auckland branch members of the New Zealand Shareholders Association.

In these presentations, we covered Abano's interim results announcement, the ongoing progress of our individual sectors and businesses and discussed the Group's overall strategy and future direction.

All presentations are available on our website www.abanohealthcare.co.nz.



Key take-outs from these presentations included:

- Our core objective is to improve the return on investment for our shareholders funds.
- We will do that through a focus on the private revenue segment of the healthcare and medical services market where we will continue to invest and develop in sectors where those activities enhance and add value to our shareholders.
- Our investment model is to focus our future development in carefully selected and

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Company Happenings // CONTINUED

concentrated sectors, where we work in partnership with the clinical founders who made their businesses a success, and where we can provide resources to enable each business to reach its full potential.

- We are currently focused on the growth of our dental, radiology and audiology sectors, with hold and maintain strategies in place for the rehabilitation and diagnostics businesses.
- The challenges ahead include recruitment and retention of quality senior clinicians and their support staff, and a continued reliance on a level of state funding within some of our businesses, particularly the rehabilitation and diagnostic sectors.

PATHOLOGY REVIEW

Following the judicial review of the Auckland DHBs' tender process and subsequent over-turned decision on the contract with Labtests, we have had many people ask us whether we will be taking similar action in Nelson with respect to the Nelson Diagnostic community pathology contract that was lost there last year.

In spite of what we believe was a flawed consultation process, we have decided that we will not be seeking a similar judicial review, as the local community and laboratory infrastructure have now moved on and there is little to be gained for Abano or the community. We are, however, encouraged by the Auckland decision, which we see as a benchmark point and a timely reminder to health funders that there is a far higher duty of care needed in their consultation processes with all parties who may be affected by their decisions.

My management team and I are always available to talk to shareholders or answer questions about the Abano business, and I welcome your interest. More information on the Group and our individual businesses is available at www.abanohealthcare.co.nz, where you can also register to receive company announcements and view company reports and presentations.

Alan Clarke
Managing Director

Organisational Changes //

In April 2007, we bid farewell to Suzanne Recchia, our group financial controller. Suzanne has provided significant support to the Group, including more recently around the IFRS adoption process. We would like to take this opportunity to acknowledge and thank Suzanne for her contribution over the past few years.



Brendan O'Sullivan has been appointed as the new group financial controller for Abano, and commenced his role in early May 2007. Brendan is responsible for the financial consolidation and reporting for all Abano companies, including monthly reporting. His role also includes the establishment of internal financial controls and financial internal audits as the Group continues to grow and diversify.

A qualified accountant, Brendan has a variety of experience in both the public and private sector in New Zealand, the UK and Ireland. His previous role was as Financial Controller for Warner Music New Zealand.

Shareholder Updates //

IMPORTANT INFORMATION: Please read this section carefully.

By completing the enclosed form, you will be able to elect to receive your dividend payment by direct credit, register to receive electronic copies of company documents such as annual and half year reports, and subscribe to Abano's email news service.

DIVIDEND PAYMENT

Abano Healthcare Group will commence paying an annual dividend to shareholders following the conclusion of the 2007 financial year. Payment is available either by cheque or by direct credit. To enable dividend payments to be direct credited to your bank account, please complete the form enclosed with this newsletter and return to Computershare by 9 July 2007.

COMPANY REPORTS

From mid-June 2007 the Companies Act will change, and shareholders will only be notified by letter of the release of any company shareholder reports, which will be placed on company's website. Printed copies of any report will not automatically be sent to shareholders unless they request for one in writing.

While these regulations come into effect from June 2007, they will only apply to Abano for its 2008 interim report to be released by the end of February 2008. You can also elect not to receive a copy of the interim report at all if you wish.

A printed copy of the 2007 Abano annual report will also be available online, however, we will still be required to send a printed copy to shareholders unless you register to receive this publication electronically only.

If you register, you will receive an email directing you to the relevant document on our website as it is released. The benefits of email notification are faster and more convenient delivery of shareholder materials, a reduction in corporate costs and a positive impact on the environment.

Please tick the appropriate boxes on the enclosed form or register online at www.abanohealthcare.co.nz/electronicdelivery.

COMPANY ANNOUNCEMENTS

Abano also offers interested parties, including shareholders, the opportunity to subscribe to receive electronic notification of company announcements, including media releases, our regular newsletter and financial results. To subscribe, please register online at www.abanohealthcare.co.nz/Subscribeonews.

If, at a later date, you wish to discontinue receiving notifications of company announcements or newsletters, you can do so by emailing enquiries@abanohealthcare.co.nz.





DIAGNOSTIC // UPDATE

// AOTEA PATHOLOGY

It is now six months since Aotea Pathology commenced the contract for all community pathology work in the greater Wellington region.

The merge of the two former laboratories, Valley Diagnostic and Medical Laboratory Wellington, was very successful with no interruption to the normal laboratory services occurring during the merger process.

The focus of the first few months has been on patient services with major improvements in patient facilities at several collection centres, including the collection rooms in Courtenay Place, Paraparaumu, Porirua and Lower Hutt. As well as expanding and upgrading patient waiting rooms, we have also provided more space for staff undertaking pre-analytical work in our Lower Hutt and Porirua collection rooms.

Staff have adapted very well to the new laboratory service, and especially to handling the changes introduced by the DHBs' new policy of charging patients who have tests requested by specialists working in private hospitals and clinics or in private practice.

The introduction of patient charges has gone reasonably well with savings achieved for the DHBs. Like any new

system with major change involved there were some teething problems, however, these have been resolved through good communication between the laboratory, local specialists and their patients.

It is a significant change for laboratory services and as the first area in the country to operate with patient charges for lab tests we have learnt a lot in a short time – a lot of credit must go to our front line staff, and the people behind the scenes who have worked on this project.

Aotea Pathology's focus over the next few months is to successfully complete the first external accreditation review as a new laboratory entity.

Work is underway to complete a \$1.8m project to refit the technical laboratory. With the merger of the two laboratories, an additional floor was leased above the existing laboratory in Courtney Place, Wellington and new processes were designed to ensure efficiencies are gained through the merger. We intend to create one of the most up to date testing facilities in the country. At the same time, Aotea Pathology staff will be making sure that the same high quality pathology services that are valued by patients and health practitioners in the region will be maintained during the laboratory alterations.

DENTAL // UPDATE

// LUMINO DENTAL

At Abano, retention is just as important as recruitment, and in all our businesses we spend significant time identifying skill shortages and implementing strategies to attract and retain key clinical staff. Our aims are not only to attract qualified, New Zealand based staff into Abano businesses, but to up-skill existing staff through training schemes and to convince internationally qualified people to consider coming to New Zealand.

Lumino Dental is leading the way in the dental industry, with a number of initiatives aimed at attracting high quality dental staff and providing a rewarding work environment.

One key initiative has been the introduction of Prime Practice Management across our dental network. This is a specialist dental training scheme that enhances clinical practice and the dentists' earning capacity. Prime represents a significant Human Resource investment for Abano, but has already proven its worth with an increase in the average income per clinical day for our dentists and a reduction in dentist turnover. In addition, we now hold an annual clinical meeting where we fly in world class speakers to address and work with over 70 of our clinicians at an exclusive Lumino three day clinical conference.

As part of a long term strategy to recruit highly qualified dental clinicians, senior management from Lumino recently attended a recruitment expo in the United Kingdom. Feedback was very positive with a lot of interest from dentists and dental staff considering a move to New Zealand and our attendance at the expo was a great opportunity to build on Lumino's reputation within the UK dental industry.

Growth of the Lumino Dental network has continued this year, with Merrilands Dental Centre and Smile Solutions, both in New Plymouth and operated by dentist Dominic Firkin, joining Lumino in late March. Absolute Dental in Lower Hutt has been acquired in the past few weeks, bringing the total number of practices to 24. This is continuing our stated growth of an average of one new practice every two months, as we continue toward our target of 40 practices by 2009.



RADIOLOGY // UPDATE

// ASCOT RADIOLOGY

In February 2007, Abano acquired a second radiology business, Greenlane Imaging, adding to its existing radiology business, Ascot Radiology.

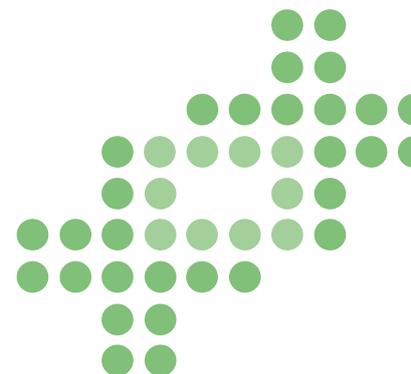
Greenlane Imaging is a small single modality CT company located within Greenlane Hospital and has revenues of \$1.4m. Over 50 percent of this revenue is for private referrals, mostly for cardiac and thoracic diagnosis. In addition to this, Greenlane Imaging operates a fixed price three year contract for the Auckland District Health Board.

In line with Abano's policy of equity involvement of clinicians, Abano owns an 80 percent share of this entity while the vendors, Dr David Rogers and Dr David Milne, continue to hold the remaining 20 percent.

Abano Healthcare has also recently announced that it has exercised an option to acquire a further 40 percent interest in Ascot Radiology, bringing Abano's ownership up to 80 percent, with the remaining equity held by Dr Rogers and Dr Milne. From June, Greenlane Imaging will be a subsidiary of Ascot Radiology and will operate as a satellite clinic.

The board plans to introduce several new associate Radiologists, who will join the two founding partners, in an equity partnership with Abano. Abano would then reduce to a shareholding of approximately 70 to 75 percent.

Radiology is a sector in which Abano has been involved for eighteen months. The model and business is working well and we believe it has the potential to double in size over the next three years.





AUDIOLOGY // UPDATE

// BAY AUDIOLOGY

Bay Audiology, the only national audiology network in the country, has added a further four clinics to its New Zealand network since January year, taking the total network to 39 branches across the country.

Bay has acquired two existing clinics – one in Taranaki and one in the Waikato region, as well as opening two new clinics in Christchurch and Hastings.

Leading audiologist and founder of Taranaki Audiology Ltd's 'The Hearing Place', Richard Powell, has practiced in New Plymouth for over 20 years. The Hearing Place is a unique private clinic, in a purpose-built building, offering care for all generations from infants through to grandparents and great-grandparents.

Tim Loads is the founder of Waikato Hearing Clinic, which has clinics in Thames and Hamilton. The Thames clinic was established 15 years ago and purchased by Waikato Hearing Clinic in 2000.

The Hamilton clinic was set up in 1995, and in 2005 moved to new premises to provide audiological support for ENT specialists.

Bay's expansion is set to continue as the business has plans to open several new clinics through 2007/ 2008 in new locations and existing areas where the company already has a visiting presence, along with setting up a number of new satellite clinics across the country.

In addition, Abano announced in February our entry into the Australian market through Bay Audiology with the

acquisition and opening of new clinics in and around Brisbane.

The Australian strategy is based on the successful and proven Bay Audiology business network in New Zealand, which is recognised as a leader in the field of clinical audiology.

The management and clinical teams at both Abano and Bay have a depth of operational experience in the Australian market, and entry in this manner is seen as low risk and offering attractive future investment returns through steady organic and acquisition growth.

The Australian practices are operated independently under Bay Audio Pty Limited, a subsidiary of Bay New Zealand Limited. The Queensland practices are managed by Andrew Campbell, an Australian qualified senior audiologist who has been with Bay New Zealand for five years. Peter Hutson, the Executive Chairman of both Bay Audiology in New Zealand and Bay Audio in Australia, will lead the strategic development of the business in the region.

The Abano investment strategy is based on establishing equity partnerships with proven clinicians or health professionals who are leaders in their fields, have created organisations that have a proven record of profitable growth and who strive for and have achieved clinical excellence in their areas of expertise. In line with this investment philosophy, key senior management clinicians in our Australian strategy will have an equity involvement in Bay Audio Pty Limited.



HEALTHCARE COMMENTARY //

// DEMAND FOR PRIVATE HEALTHCARE ESCALATES

Funding pressure for healthcare continues to increase in line with all OECD economies and recent reports from Treasury underline the challenges that New Zealand faces in meeting the rising cost of and expectations for healthcare.

During April to December 2005, the Treasury undertook an in-depth review of the health sector, with a report released in February 2007.

The reports highlighted key issues, in common with other developed countries, mainly the increasing cost of prescription drugs, a high quality workforce, technology and the increasing burden of disease in an ageing population.

Finance Minister Michael Cullen and Health Minister Pete Hodgson commented: "As we have been saying for some time, the higher cost of health care, including increasingly complex and expensive technology, places big burdens on the fiscal purse.

"For instance, in 1990, health spending per head was around \$1,400 in today's dollars; in 2006, this has risen to \$2,300. Treasury projects health spending as a proportion of GDP to rise from 6.2 per cent in 2002 to 13.5 per cent in 2051.

"We are not alone. Most OECD countries face similar challenges and it is important these issues are debated by all New Zealanders."

"This coming financial year we are spending \$10.6 billion in the health sector, \$4.2 billion more than in 2000/01, a 66 per cent increase."

As our population ages, the need and demand for healthcare continues to escalate. The 2006 revision of "World Population Prospects" by the UN Department of Economic and Social Affairs Population Division predicts the global population will swell by 2.5 billion from the current 6.7 billion during the next 43 years. Of that, the number of people 60 years and older may nearly triple to 2 billion by 2050, making up nearly a quarter of the expected global population of 9.2 billion.

This population trend is evident in New Zealand and as demand for healthcare dollars increases, more and more consumers are looking at private healthcare insurance to supplement or fund their healthcare needs.

A recent report from the Health Funds Association of New Zealand (HFANZ) showed approximately one quarter of New Zealanders (1.37 million lives) are covered by health insurance, with a sign up rate of nearly 100 people a day.

The total increase for the 2006 year was 15,500, according to HFANZ.

"Older policyholders are keeping their cover, as they see what is happening with elective services. At the same time, younger age groups and families are increasingly looking to health insurance for peace of mind," said HFANZ executive director Claire Austin.

She agreed with Health Minister Pete Hodgson's recent comments that there would never be enough taxpayer money to fund all types of surgery that anyone may want to undertake.

Health insurers paid out \$575 million in claims in the last year.

The trend was moving away from comprehensive policies and towards major medical insurance.

"We need to recognise that health insurance complements the public health system and look for more ways for the sectors to work more collaboratively for the benefit of all New Zealanders."

The market has seen other evidence of the anticipated growth in the private sector, with the opening and expansion of private healthcare and medical facilities and services such as Ascot Hospital and associated clinics in Auckland, the Southern Cross Hospital in Rotorua and a multi-million dollar expansion of Mercy Hospital in Dunedin.

These observations reinforce the direction and the investment philosophy of Abano's strategy, which is to focus our investment dollars into businesses providing services for the private segment of the healthcare market. We must and still do, recognise that Government funding in healthcare delivery will always be an important element going forward. However, we believe there is more stability



HEALTHCARE COMMENTARY // CONTINUED

and continuity in service and product provision in the private healthcare market.

We welcome the call by the Ministers of Finance and Health for a debate around healthcare funding. We have been pointing out for many years, that the cost of medical and healthcare services for our aging population is a significant issue and our society must recognise that the Government simply cannot continue to fund it all. We echo the Ministers' words and encourage the debate as to the most appropriate healthcare model going forward.

We put forward again, the observation, that the attempts of the past to address this problem, based on 'clinical needs' or defining 'core services', have all failed. Perhaps we need to consider the proposition that the Government's role is to provide healthcare and medical services only for those in our society who cannot afford to insure or purchase these services for themselves.

After twenty years of constant cost reform by hundreds, if not thousands of consultants, it should now be obvious that we can't legislate or tender away the demand and growth of the healthcare and medical needs of our communities, and that the Government cannot pay for all our healthcare and medical services.

Is it not time to recognise that how we fund healthcare is the problem, not how much it costs? Constant cost reforms or interfering in the clinical role between a patient and their doctor to determine what will be funded and what will not; or constant tenders for short term contracts that require providers to provide the same services for less, will not deliver New Zealand a sustainable and world class health system.

The answer is not to try to define what is "medical need" or "core", but rather to ask the question, "Is it reasonable that people in the top income brackets in New Zealand receive free or subsidised healthcare?" Surely wealthy individuals, if encouraged by appropriate tax incentives, could insure themselves and their families for their healthcare and medical needs. Couldn't we relieve the Government's burden for ordinary New Zealanders healthcare needs, if employers were encouraged, and not penalised, for providing health insurance policies.

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