

MANAGING DIRECTOR'S REPORT

YEAR IN REVIEW

We have made some big decisions about the future of our Group this year, as reported by the chairman.

Operationally we continued to concentrate on establishing partnerships with health professionals who are leaders in their fields and who have organisations that strive for clinical excellence.

The decisions we have made this year have put Abano in a strong position for future growth, with capital funds to invest in new businesses that offer high returns and which meet our investment guidelines.

We have an experienced and professional management and clinical team who support our desire to provide quality care and diagnosis. We are now established as a leading operator in the healthcare and medical services market, and we are determined to meet and exceed the expectations of our clients, patients and shareholders.

MEETING DEMAND

In New Zealand, like the rest of the world, our ageing population is growing, and with it, the demand for world class healthcare and medical services is expanding.

In New Zealand, more than 23 percent of the population is expected to be aged over 65 years by 2030, a total of approximately 1.1 million people. For every five years a person lives over the age of 65 years, the demand for and use of medical and healthcare services doubles; for people aged over 70 years, demand doubles every two years. An 85 year old uses 15 times more health dollars than a 50 year old and 85 year olds in our population will quadruple in the next five years.

We are well positioned to take advantage of this growth, through our portfolio of businesses that provide a comprehensive range of healthcare and medical services for aged populations.

Our investment strategy targets businesses with strong private revenue streams and committed, proven clinical owners. We entered the radiology market this year, with a 40 percent investment in Ascot Radiology, and we are focusing on the growth of our dental network, Lumino. Our recently announced investment into Audiology continues this focus. These are all sectors which have a high level of private paying customers and the opportunity to expand and grow.



MANAGING DIRECTOR'S REPORT CONT

Public health funding remains an important revenue stream and we continue to hold and operate services under Government contract, particularly in the pathology and rehabilitation sectors. However, we recognise that the Government will continue to struggle with the burden of funding the current range of health and medical services.

LEADERS IN THE HEALTHCARE MARKET

In the private and public healthcare markets, one thing remains the same - private paying customers and public health funders want world class service and care from healthcare businesses which are leaders in their field. They want this care at a reasonable cost, and they want to know that their healthcare providers are professional, experienced and credible. Funders also want the security of working with businesses that have sound management practices and solid reputations.

Many of our businesses, such as Medical Laboratory Wellington, Ascot Radiology and Ranworth and Burtons Healthcare, are already leaders, either in their communities, nationally or in their respective sectors. Others like Lumino, our dental network, have the potential to grow into leadership positions, and we have strong growth and development strategies in place for these.

THE FUTURE

Abano is in an exciting growth phase. We are focused on creating a leading medical and healthcare group that provides excellent services which yield attractive investment returns for our shareholders.

We aim to continue increasing our portfolio of services in the growing healthcare and medical services market while ensuring our clinical teams and management personnel have the experience and professionalism to maximise opportunities to achieve our vision.



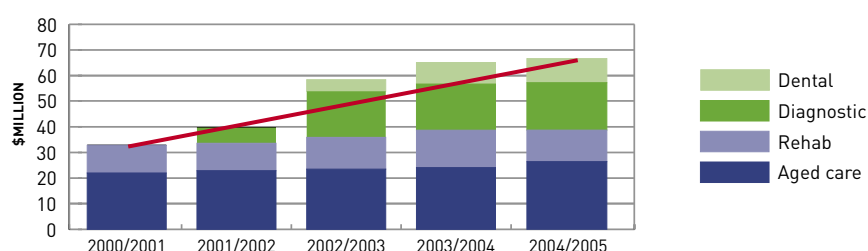
Alan Clarke
MANAGING DIRECTOR

OPERATIONAL PERFORMANCE

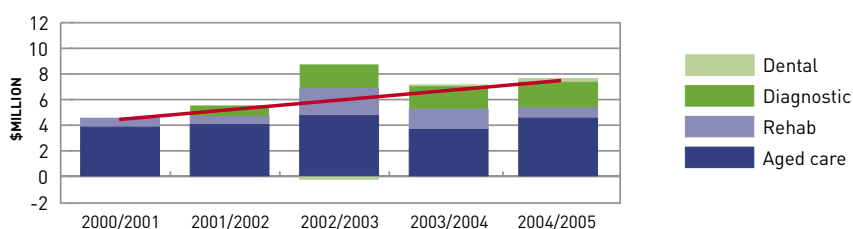
CONSOLIDATED RESULTS

In the past financial year, Group revenues have increased in all sectors except Abano Rehabilitation, and all sectors delivered positive operating profits. On a consolidated basis, operating performance was an improvement on the previous year with a small net loss after tax of \$38,000 in the 2004/05 financial year compared to a loss of \$0.5 million in the 2003/04 year.

REVENUE



OP-EBITDA



SECTOR PERFORMANCE

Below is a summary of each sector's performance, with more detail on our businesses provided in pages 18 to 26. In all cases, operational EBITDA, as reported for each sector below, is EBITDA before noncore/unusuals and after allocation of corporate costs.

Abano Aged Care

From 13 July 2005, Abano no longer operates in the aged care sector, following the sale of ElderCare to The Macquarie Group for \$63.5 million.

During the financial year, revenues grew 9.5 percent to \$26.4 million, following the flow on benefits of the extensions made at Takani and Whitianga in 2003/04, with an Op-EBITDA contribution of \$4.5 million, up 21.6 percent on last year.

Although Abano Aged Care has been involved in the review and sales process for much of the year, management continued to focus on improving the quality of service and care offered to patients. This included the launch of the personal empowerment programme for residents, LIFE, which builds on the successful Promoting Independent Living research project run over the past two years.

Upgrades were started on two facilities – Gracelands and Eldon Lodge – with a remodel of the dementia wing and a full refurbishment of the existing resthome for Eldon Lodge completed in the financial year.

OPERATIONAL PERFORMANCE CONT

The redevelopment of Gracelands Nursing Complex will take 18 months to complete and involves the building of 14 new care beds, and renovations to the rest of the facility.

In addition, three new apartments and one new resthome room were added to St Johns Wood in Taupo.

As stated, ElderCare has now been sold to The Macquarie Group, and as from 13 July 2005, Abano no longer conducts business in this area of the healthcare market.

Abano Dental

Dental revenues were \$9.4 million, up 13.3 percent over the previous year, with an increased Op-EBITDA of \$0.3 million. Extensive investments were made during the year to reinforce the business' long term growth strategy.

These included extending the new software platform and accelerating the rollout of the growth strategy. New dental practices were acquired in Auckland - The Auckland Dental Group and Victoria Ave Dental - as well as Dargaville Dental in the upper North Island. Since year-end, a further two practices have been acquired in Hamilton and Te Awamutu and we are investigating new practices offering a further \$5 million in revenue.

Abano Dental launched a new dental network identity, Lumino, in May 2005, to replace the Geddes Dental brand acquired by Abano in November 2002. All Abano Dental practices now operate either in association with or as a part of the Lumino network.

Lumino is the only dental brand in New Zealand to reward its patients for their custom, by offering New Zealand's most widely recognised and sophisticated loyalty programme - Fly Buys.

Returns for the 2005/06 year are expected to improve as the business focuses on private paying patients and the continued growth of the Lumino network.

Abano Diagnostics

The diagnostics sector returned revenues and Op-EBITDA slightly up on the previous year. Revenue of \$18.5 million and Op-EBITDA of \$2.0 million included a four month contribution from the 40 percent ownership of Ascot Radiology.

Pathology

Key activities for the pathology businesses are centred on delivering specialist pathology services that include expert clinical interpretation and accurate timely test results to the users of the laboratory service.

In the financial year under review, a number of new communication initiatives were established, including updated logos, practice support materials and a revitalised quarterly newsletter for referrers.

Investment in technology continued with a new state of the art diagnostic immunoassay platform, a new laboratory information system for the Biostandards environmental testing division and the installation of new accounting software. In addition, the businesses created a unique software tool within the Laboratory Information System (LIS) to capture data from each of its medical scientists to streamline the administration of essential Continuing Professional Development activities.

In June 2005, Abano announced that Medical Laboratory Wellington was evaluating plans to merge its operations with Sonic Healthcare's Valley Diagnostics. If confirmed, the merger will occur in mid to late 2006 once DHB contracts are approved for a merged service by both the Capital and Coast DHB and the Hutt Valley Health DHB. The potential merger will create New Zealand's second largest single site community pathology laboratory. The evaluation of this initiative is currently underway and we will announce additional details on the merger, equity split with Sonic and timing for the DHB contract completion, as these decisions are made.

Radiology

Ascot Radiology joined the Group in February 2005 when Abano acquired a 40 percent holding, with an option to increase this to 80 percent in 2007.

The practice focused on increasing revenue during the year, by improving market share with appropriate marketing, introducing new services, and a price increase.

A third ultrasound machine was introduced, and Ascot Radiology took advantage of the marketing opportunity provided by 4D ultrasound foetal scans to increase patient numbers and referrals. New MRI (Magnetic Resonant Imaging) software was installed late in the year to increase capacity and image detail to meet growing demand from referrers.

In addition, Ascot Radiology has been the first private clinic in Auckland to adopt digital review of imaging with the PACS system. The technology will be extended in the next year and will result in significant long term efficiencies.

Over 50 percent of revenue for Ascot Radiology is funded privately and the business will continue to focus on growing this revenue stream into the future.

Abano Rehabilitation

Disappointingly, revenue for the financial year was down 14.6 percent to \$12.3 million, with a corresponding decrease in Op-EBITDA to \$0.8 million.

The decline in the performance of the sector was due to difficult contract negotiations with ACC. The contract environment has continued to change as ACC has reviewed and renegotiated contract parameters and guidelines for brain injury rehabilitation. The businesses have focused on changing service delivery to meet the new ACC contract and purchasing requirements, and gaining synergies across the three brands – Health Partners, Burtons and Ranworth – in order to obtain new and extended contracts.

A new contract covering complex pain assessment was successfully trialled in Tauranga this year and is now an ongoing service. This sector has continued to develop an ongoing relationship with Workbridge, resulting in increased vocational contract work in several regions. Since year end, the number of referrals from Work and Income New Zealand (WINZ) in the South Island has been building with a new contract now in place.

In addition, changes have been made to the management team, to ensure that the most effective management structure and executives are in place to drive future growth. They are working closely with ACC and other funding bodies to ensure Abano Rehabilitation is seen as responsive, innovative and the provider of choice.

New operational contract monitoring software has been implemented with information and reports now available to managers at all levels through the organisation, enabling them to monitor staff and branch performance.

A customer survey during the financial year showed lower than expected recognition of the rehabilitation brands by key customers. Therefore, the Burtons and Health Partners brands were refreshed in early 2005. A series of brochures and flyers have been developed to promote Abano Rehabilitation services to funders and to improve recognition and brand presence.

While the current performance is below expectations, we expect to see an improvement in future earnings as the contracting environment stabilises.

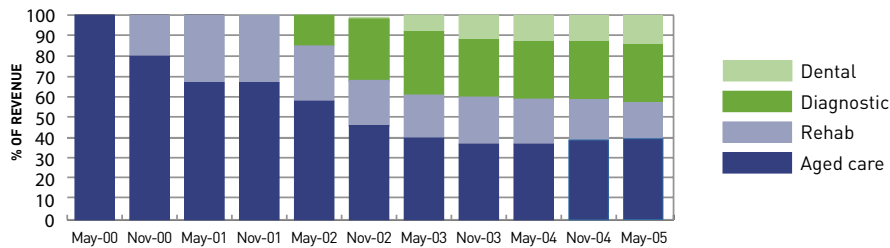
RETURN ON INVESTED CAPITAL

Our operational and investment focus is to maximise our return on investment capital. Our aim is to have a solid portfolio of businesses which generate operating returns at a premium to our weighted cost of capital and have significant private revenue streams.

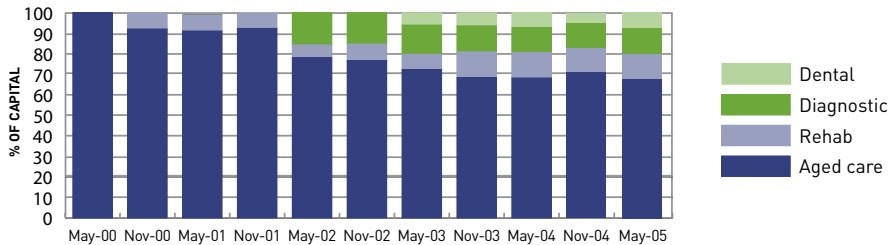
OPERATIONAL PERFORMANCE CONT

Aged Care revenues decreased to 40 percent of Group activity in the period; however, 64 percent of total Group capital was employed in this sector, as can be seen below. The return on this capital intensive business was one of the major factors in our decision to sell ElderCare, and following the sale, the Group now has the ability to achieve a higher return on capital across its portfolio.

REVENUE CONTRIBUTION BY SECTOR

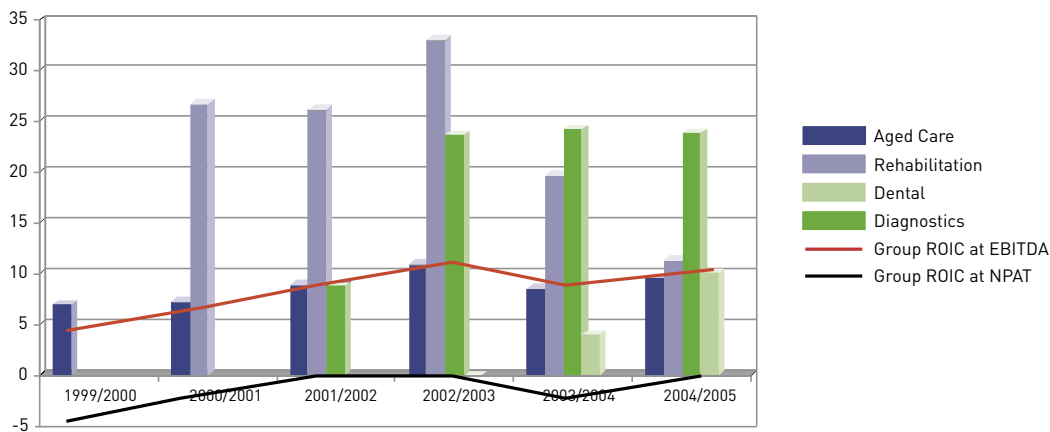


CAPITAL EMPLOYED BY SECTOR



Our progress with respect to our Return on Invested Capital at EBITDA (before corporate overhead allocation) as a percentage of our investment in each business can be seen below.

EBITDA RETURN ON INVESTMENT BY SECTOR



* Each sector's ROIC is measured as Operating EBITDA (before corporate overhead) divided by the capital employed in that sector

** The Group ROIC is EBITDA (after corporate overhead) divided by the total capital employed

Over the last six years, the Group has improved the return on invested capital at operational EBITDA from less than five percent in 2000, to 10 percent this year. Following the sale of the aged care business, and the acquisition of new businesses offering higher returns, the Group ROIC at EBITDA is expected to improve to over 20 percent and at NPAT is expected to move towards 15 percent over the next three years.

Our focus for the next financial year is to complete the acquisitions mentioned in the diagnostics and rehabilitation sectors, as well as the Audiology investment announced at the special meeting in early July 2005.

FINANCIAL POSITION

The Group's financial position remains sound at all key financial ratios.

KEY FINANCIAL RATIOS

\$ MILLION	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
Debt/total assets	54.1	40.1	39.7	43.1	38.6
Equity/total assets	39.3	51.4	51.6	48.2	52.2
Interest cover at EBITDA	0.97x	1.5x	2.7x	2.5x	2.8x
EV/EBITDA	16.5	14.0	8.1	8.7	5.4

FINANCIAL POSITION

\$ MILLION	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
Total assets	76.0	80.7	81.4	84.6	87.3
Net debt	41.1	32.4	32.3	36.5	33.7
Total equity	29.9	41.5	42.0	40.8	45.6

POTENTIAL SHARES ON ISSUE

	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005*
- Paid up shares on issue	157,032,387	193,681,527	194,835,832	219,953,744	27,105,432
- Exec convertible notes	3,800,000	6,225,000	6,725,000	6,725,000	472,500
- Other convertible notes	5,398,402	22,101,025	16,451,206	8,800,000	nil
- Options	33,034,274	31,034,274	nil	nil	nil
Potential total shares	199,265,063	253,041,826	218,012,038	235,478,744	27,577,932

*2004/05 figures reflect the 1:10 share consolidation on 14 December 2004

A total of 40,256,859 new shares was issued to RECT Funds Management in November 2004 (4,025,686 post-consolidation).

In December 2004, a 1:10 share consolidation was undertaken, and the total number of paid up shares on issue decreased from approximately 260 million to 26 million at that time.

FINANCIAL POSITION CONT

SOURCES OF INCOME

Abano's revenue strategy is to increase the Group's income generation from private revenues where possible. However, the Group will continue to generate a mix of both private and public income as the New Zealand Government continues to be the largest funder of healthcare and medical services, with a total \$9.68 billion health funding package in 2005/06.

The Group continues to have some reliance on positive relationships with public health funding bodies and Government organisations, but we believe there will be an increasing component of private payment as Government funding is unable to meet future demand. We will always have a strong focus on Government initiatives in health and will continue to hold and operate services under Government contracts.

In 2004/05, 33 percent of total Group income was from private payment, 15 percent from ACC and 52 percent from DHBs and MOH.

REVENUE BY SECTOR				
	2004/2005 \$ MILLION	PRIVATE %	ACC %	MOH/DHB %
Aged Care ¹	26.4	49	nil	51
Rehabilitation	12.3	3	83	14
Diagnostics	18.5			
- Pathology		6	nil	94
- Radiology		50	30	20
Dental	9.4	80	nil	20
Percentage of Group revenue		33	15	52

¹ Expected to move to 10 percent private and 90 percent MOH/DHB with the progressive removal of asset testing from July 2005 onwards

INVESTMENT IN OUR RESOURCES

Advanced technology, leading edge equipment, quality facilities and highly skilled and experienced clinical staff continue to be key areas of investment for Abano Healthcare Group. As can be seen in the table below, investment in these resources for the 2004/05 financial year was over \$3.9 million.

RESOURCE (\$000)	DIAGNOSTICS	DENTAL	AGED CARE	REHABILITATION
Technology	400	55	100	107
Equipment	120	250	566	33
Human Resources	146	41	270	90
Facilities	40	228	1,518	nil

SOCIAL RESPONSIBILITY

We operate in many different communities around New Zealand and believe it is important to support those communities in ways that help us foster relationships with our clients, our staff and the people who live and work around us.

In the past financial year, we have undertaken a number of sponsorships and other initiatives in support of this belief:

- Abano Dental is a sponsor of student team events at the University of Otago Dental School, helping to foster relationships with future dentists and dental technicians.
- Abano Dental sponsored the Auckland Zoo's Hippo River in 2004/05.
- Medical Laboratory Wellington provides financial support for the Kapiti Emergency Services Trust for the operation of the emergency ambulance service. This sponsorship assists the service to continue its vital role in the provision of emergency care for victims of serious road trauma in the region.
- The pathology businesses also make regular donations to local medical organisations. In 2004, donations were made to Diabetes Youth Wellington Incorporated to assist in running two educational camps in early 2005 for 8-12 yr olds and teenagers with diabetes; The Order of St Lazarus - Wellington Commandery to assist their support for research and training in dermatological disorders in this region; and Canteen Wellington to assist this organisation to support, develop and empower young people aged 13-24 years living with cancer or a life-threatening blood disorder in the Wellington region.
- In January 2005, a senior member of the Wellington laboratory team, Jude Willis, undertook a three-month volunteer assignment in south western Sri Lanka, in an area devastated by the Boxing-Day tsunami. The staff supported Jude with personal donations, matched by the company, to buy much needed sports equipment for the local school communities and helped to restore the confidence of local children in water sport activities.
- Abano Rehabilitation is a major supporter of the Brain Injury Association, both in Auckland and nationally.
- Abano Rehabilitation also provides work placements each year for around 10 students undergoing clinical training.
- Ascot Radiology sponsors the Total Aquatic Sports Swimming Team, based in Mt Albert and Epsom/Remuera. TAS is training many talented swimmers including a 14 yr old National Champion.