

ANNUAL MEETING 2008

MANAGING DIRECTOR'S ADDRESS

Alan Clarke

2008 Highlights

2008 was a record performance year for Abano. We posted a bottom line profit of \$7.8 million, meeting our market guidance with revenues of \$123.9 million and an EBITDA of \$23.3 million.

We are on track to deliver revenues of between \$170 to \$180 million an EBITDA of \$28.0 to \$32.0 million and a NPAT of \$10.0 to \$11.0 million for the twelve months ended 31 May 2009.

The highlights from the 2008 financial year included the following:

- An expansion of the Bay Audiology network in New Zealand to 52 permanent and satellite clinics and growth of the Bay Audio network in Australia to 30 permanent and visiting clinics ...this increased again to 63 and 51clinics respectively in the first six months of the new financial year.
- The acquisition of nine new dental practices in New Zealand, taking the total number of practices in the Lumino The Dentists network to 33 at year end increasing to 39 practices in the first six months of the new financial year. We also opened operations in Australia following year end and we now have 14 clinics operating there under our new Dental Partners brand.
- The introduction of new radiologist equity partners into the radiology business, which reduced Abano's holding to 73%; and the commencement of services at a new \$7million state of the art radiology clinic in Auckland ... with specialist obstetric radiology practice, Insight Radiology, added to the group in recent weeks.
- The Pathology business refitted and re-equipped the Wellington based laboratory, creating a new leading edge facility.
- And our rehabilitation businesses, in brain injury and orthotic services, both focused on cost reduction and margin improvement, with improving performances throughout the year.

So 2008 was a very productive and busy year, in addition to the corporate activity as outlined by Alison that also consumed an extraordinary amount of management and board time.

Moving Forward

Our growth has continued unabated into the 2009 financial year, with numerous acquisitions in dental, audiology and radiology and through our entry into new markets in Australia and now Asia.

Several of these initiatives and investments took place in recent months. We entered the Australian Dental market in July. We then acquired the King Hearing Australian audiology chain in August and Insight Radiology in New Zealand in November, along with a number of larger New Zealand dental practices.

As a result we are expecting a stronger second half performance over our first half and will only see the full year's benefits of many of these initiatives in the 2010 financial year.

All businesses are showing pleasing steady performances and as said, we are on track for yet another record financial performance for the 2009 financial year.

Let us now examine each business sector in turn.

Bay Audiology - New Zealand

Seventy percent of Bay Audiology was acquired by Abano in October 2005 in a partnership with the founding clinicians. Audiology clearly is a very important business stream in our portfolio and we are the only national provider of audiology services in New Zealand.

Bay is also internationally recognised as a leading clinical audiology group world wide, witness by our partnership agreement with the Siemens Hearing Instruments Group from Germany.

Bay Audiology in New Zealand has now grown to 63 permanent and satellite clinics, with 11 new clinics acquired or opened since the new financial year began in June 2008.

This includes our investment in Access Audiology in Auckland with three clinics and in Dunedin Hearing with its six clinics across that city and throughout Central Otago, in recent weeks.

Bay's strategic focus is to remove and demystify the traditional barriers to hearing loss and add a unique and open customer experience to the traditional way people access audiology services.

This means more and more of our new clinics are in major shopping malls, in line with Bay's strategy to "drop the barriers" and remove the "healthcare professionals in white coats" approach to treating hearing loss, by creating a retail-focused audiology service which is easily accessed by all.

We will continue to develop the New Zealand market through conversion of satellite clinics into full time clinics and through the establishment of further Greenfield locations in under serviced regions.

Bay Audio - Australia

Abano entered the Australian audiology market in February 2007 through a Bay Audiology subsidiary, Bay Audio.

From an initial footprint of four clinics established by April 2007, Bay Audio now has 51 permanent and satellite clinics in southern Queensland and Northern NSW including the recently announced acquisition of King Hearing from the Siemens Hearing Instruments Group in July, as part of our regional partnership.

While the clinic footprint has grown considerably, the Bay Audio business is still in its infancy compared to the New Zealand group with individual clinic yields and activity at a much lower level.

However, the business is now profitable, as forecast, and it will be a solid contributor to the Bay group.

Bay Audio is now one of the largest audiology providers in Queensland, with growth plans in place for the Queensland/Northern NSW region and beyond in 2009.

As the network grows, economies of scale and further cost efficiencies will be achieved and the business will be an important contributor to Abano going forward.

Bay Asia

Today, we are very pleased to be able to confirm our entry into the multi-million dollar Asian audiology markets with the planned acquisition of audiology businesses in Singapore and Hong Kong in coming weeks.

Through subsidiaries of Bay Audiology, we will initially acquire three clinics in Singapore from Siemens as part of our world wide partnership agreement.

Separately, our Bay Asia subsidiaries will also acquire a further audiology clinic in Singapore, being a Siemens franchise store and two additional clinics in Hong Kong.

These businesses are small and represent initial entry points similar to our phased entry into Australia.

We will make a total initial investment of approximately NZ\$3 million, and the businesses are expected to contribute around NZ\$3 million in annualised revenues and be earnings accretive from the planned acquisition in December 2008.

The Asian market is characterised by high GDP per capita societies with sophisticated consumer markets and behaviours and growing annual household incomes. Most Asian countries, similar to the OECD average, have a one in nine proportion of people with hearing difficulties.

The difference is in New Zealand and Australia, approximately 20 to 30 percent of these people are being treated for hearing loss. In Asia, this treatment rate or market penetration, is currently well below 5 percent.

With limited existing providers and large prosperous populations, all major hearing aid companies have established manufacturing plants and growing marketing and distribution networks in these countries.

Following an extensive market study, we believe Asia represents a significant market opportunity for the professional delivery of audiology services, with significant growth potential.

Like our entry into the Australian market, this has been a carefully considered move supported through our partnership with the Siemens Group. This approach will allow us to assess marketing and customer behaviours in a systematic and considered way as we believe Asian markets hold considerable potential for Abano in the years ahead.

To oversee our Asian investments, we have appointed a new regional manager. He is Robert Gilligan, a clinically trained New Zealand audiologist, with significant management and retail experience, including a previous role with manufacturer and retailer GN Resound as Country Manager for Brazil, where he has lived for the last five years. Robert is currently based in Singapore where he will anchor our entry into the region.

Lumino The Dentists - New Zealand

Abano owns 100 percent of Lumino The Dentists which now has 39 clinics around New Zealand. In addition to providing general dentistry services, the business is now also starting to expand its offer of specialist dental services through orthodontics, endodontic and specialised paediatric and mobile school dental services.

There is also a continuing rise in demand for restorative and cosmetic dentistry and Lumino The Dentists has two specialists operating in this area with a unique cosmetic dental clinic opened in Auckland in August - Lumino Pearl Dental spa.

The Lumino network has grown strongly, particularly in the past three years. Since the beginning of the 2009 financial year, we have acquired six new practices and so we are well on the way to our target of between eight and ten practices a year.

The benefits of economies of scale, which are at the core of this sector's business model, are becoming apparent and flowing through to the underlying financial performance as each new acquisition adds earnings and improved margins without additional overhead costs.

Dental Partners - Australia

In July this year, we entered the \$4 billion Australian dental market, with a 70 percent shareholding in Dental Partners, a newly established professional dental network. The remaining 30 percent is held by the founding shareholders, who are a group of dentists and experienced managers, headed by David Garofalo and Mike Timoney, who is also the CEO.

Following an initial acquisition of nine practices in July, a further four practices have been acquired, and forecast annualised revenues for the network are now over Australian \$23 million pa. A positive net profit contribution is also expected for the 2009 financial year.

There are many similarities between the Australia and the New Zealand dental markets and this new Australian business stream will build on the six years of experience available from our New Zealand Lumino operations which will compliment the extensive local market skills and knowledge of our Australian based partners.

Like New Zealand, the majority of the Australian dental market is still made up of stand alone or small group dental practices. Consolidation of the sector has only just begun.

Deregulation of the ownership of dental practices only started to occur in 1999 and as a consequence there are just a small handful of consolidators operating.

With over 5,000 practices and 9,000 registered dentists in the Australian market, this leaves a lot of room for new entrants such as Dental Partners. We believe the Dental Partners model of clinical partnership is unique and is being well received.

Our strategy is to continue to grow the Australian dental network, in a similar manner to the NZ network, and several more practices are currently under review for acquisition in the months and years ahead.

Radiology - New Zealand

Abano acquired 40% of Ascot Radiology in 2005, with a further 40% acquired in 2007. Eighty percent of Greenlane Imaging was also acquired in 2007, and that business now operates as part of Ascot Radiology.

In 2008, Abano introduced five new Radiologists as equity partners into the business and we sold down our shareholding to 73 percent to facilitate their entry. Abano will continue to introduce further radiologists into equity, as we reduce our shareholding to our planned investment level of 70 percent.

Ascot Radiology provides a full modality scanning service for patients at our three clinics in Auckland. These modalities include two new 3 tessler MRI machines which were both commissioned in 2008.

In addition, we also offer a specialist Cardiac service, which was established with a group of leading Cardiologists and the installation of New Zealand's first 64 slice CT in 2007.

Ascot also offers a purpose built specialist breast scanning service at our new state of the art clinic in Ascot Central in Greenlane. This service is offered in conjunction with Breast Associates, a leading group of breast surgeons and physicians.

There is effectively no other significant corporate ownership in the radiology sector in New Zealand and the opportunity exists for Abano to build on our current footprint through our unique clinical partnership model.

In recent weeks, we also announced the acquisition of Insight Radiology, a specialist obstetric ultrasound clinic in Auckland. In line with our partnership philosophy, Abano holds 80% of this business, with the founder, Dr Richard Davis, holding the remaining 20 percent.

Over the next year, we plan to sell down our holding to 70 percent, through the introduction of new Radiologist partners to that practice.

Following this, Abano will ultimately hold a 70% shareholding in both Ascot Radiology and Insight Radiology.

Much of our radiology business comes through referral from GPs and medical specialists and our focus is to build on our relationship with this group of people, as well as ensuring that we offer the best, most advanced radiology services and technologies for our partner practices and their clients.

Orthotics Centre - New Zealand

Seventy percent of Orthotics Centre was acquired in October 2005, with the remaining 30% acquired in 2006.

This is a small business and while it has been a steady and productive contributor it has a Hold and Maintain strategy in place because of its reliance on DHB funding and tendering.

Margins have improved steadily over the past year, and the continued development of an integrated IT system is helping with cost control and inventory management.

A new General Manager, Con Balasoglou, joined the practice in May of this year and through his considerable healthcare management experience and with the assistance of a very able advisory board of Mr Ross Nicholson, a highly respected orthopedic surgeon and Denis Currie, an experienced company director, we are looking at new initiatives for the business in the next twelve months.

Brain Injury Rehabilitation Services - New Zealand

Our brain injury rehabilitation services also have a Hold and Maintain strategy in place. Abano Rehabilitation comprises three businesses offering patient assessments, residential rehabilitation and supported living accommodation services, particularly for those clients with brain injuries. Importantly, this also includes extensive professional clinical intervention and therapy services for our community based clients. The businesses are 100% owned by Abano.

Funding for this service is predominantly by ACC and Abano Rehabilitation is a large and respected service provider in this field.

Returns from this business dropped dramatically in 2005 and since the appointment of the current General Manager Robin Cooper, there has been a focus on rebuilding the service and improving margins. Pleasingly that work has resulted in a turn around in the core operational performance with a return to good levels of profitability.

This has been achieved through an extensive and comprehensive restructure and resizing of the clinical teams and through securing long term stable contracts for our services with ACC and the Ministry of Health.

The business, following a material improvement on last year's result, is looking to organically increase revenue, improve bed occupancy and maintain costs under the current agreed contracts that we hold with ACC, the Ministry of Health and a number of DHBs in the North Island.

Aotea Pathology - New Zealand

Aotea Pathology in Wellington is arguably New Zealand's finest state of the art pathology laboratory. Abano owns 55% of Aotea, with Sonic Healthcare, the second largest pathology provider in the world, owning the remaining 45% of the equity.

Aotea has just completed its second year of operation under a five year \$102 million fixed price exclusive contract for community pathology services in the wider Wellington, Hutt Valley and Kapiti Coast regions.

Under the contract, Aotea charges patients separately for private referred specialist tests, a matter of recent vigorous debate in other DHBs around New Zealand.

There is the potential to grow revenue, over and above the public contract, through private testing, commercial testing and research. Indeed a further \$3 to \$4 million per annum is expected in private revenue over the remaining years of the DHB contract and this could indeed grow as private specialist and commercial testing grows.

Refurbishment of the Courtenay Place laboratory, which started in 2006, was completed in 2008. An opening ceremony was held in August with invited guests from the DHBs and

Government and we were delighted to see the operating performance and efficiency improve as predicted.

The business sees over 2,500 patients per day seven days a week 365 days a year. It employs some of New Zealand's best and brightest Scientists and Pathologists and our full focus is to show the people of Wellington and New Zealand that this is an essential and necessary service and not one that should be the subject of a Darwinian tendering process every few years.

The contract has three years to run and we have every intention of keeping it for the next seventy five years, the length of time this laboratory has already served the people of Wellington region.

Due to the reliance on the DHB contracts, we have a Hold and Maintain business strategy in place.

Revenue Mix by Sector

I have shown these slides at meetings in previous years. The company is now well established with multiple businesses across four different sectors, and this will be the last time we remind ourselves of where we have come from.

In 2000, we received 100% of our revenue from the low yielding aged care sector. Now we have a well balanced portfolio with Audiology, Dental, Radiology and Rehabilitation services.

Revenue Progress by Sector

Our consolidated core revenues have grown from \$18.0 million in 2000 to \$123.9 million in 2008, with a forecast of over \$170 million in the current financial year, being an average annual growth rate of over 25% per annum.

EBITDA Progress by Sector

Our earnings before interest, tax, depreciation and amortisation continue to improve at a faster rate than revenue, as our margins improve in each of our sectors.

This is before we add in the growing margins in our dental business, the new contributions that will flow from Dental and Audiology in Australia and Audiology's new initiatives into Asia.

NPAT Progress

Our Net Profit After Tax grows correspondingly and is forecast to increase to between \$10.0 and \$11.0 million for the 2009 financial year.

Revenue Source

We now have a well balanced mix of revenue sources through our four sectors, as well as a growing mix of country contributions.

The public funded contracts we hold and the revenue we generate from DHB, Ministry of Health and ACC, perversely while bound by contract conditions and without growth potential, are stable annuity streams in the current economic turbulence.

However, our strategy remains to continue to de-risk ourselves from any majority reliance on these politically influenced contracts.

Although the economic conditions may mean that growth potential for private healthcare businesses may be affected in the short term, the demand for private healthcare continues to grow.

With our emerging Australian and Asian streams we will see another income diversification source, again reducing our reliance on any one sector funder or economy.

Return on Invested Capital

Pleasingly and as forecast our return on invested capital continues to improve from less than 5% in 2000 to over 17.5% in 2008.

We are now well on track to reach our target of return on invested capital at EBITDA of over 18% by the end of the 2009 financial year.

Balance Sheet

Management and the board are constantly reviewing debt levels to ensure an efficient and prudent level of debt and equity is maintained.

As planned, our debt levels increased in 2008 and as advised, we have used our balance sheet more efficiently to fund further acquisitions and growth in the 2009 financial year.

Following our investments of recent months, our consolidated net bank debt for the Group is now at approximately NZ\$73million, with consolidated and committed debt facilities of over NZ\$105 million.

We have secured long term debt funding arrangements with our banking partners, ASB in New Zealand and their parent CBA in Australia, enabling us to continue the growth of our key businesses for the next twelve months.

In New Zealand, we have committed debt funding lines of NZ\$80 million, with an additional uncommitted facility of another NZ\$20 million through an established cashflow banking agreement with the ASB Bank. This expires in 2010 with agreed rollover provisions.

In addition, there is a separate five year, A\$25 million cashflow lending facility with Commonwealth Bank of Australia (CBA), which is ring fenced as a dedicated facility to fund the acquisition growth of Dental Partners, in addition to our original capital injection of A\$10 million.

CBA have indicated their interest in increasing these dedicated facilities as the business grows. We have used approximately A\$10 million of this facility to date.

Both committed banking facilities are based on margins and terms agreed prior to the current credit crisis.

Our Future

Abano has come a long way. Our international footprint is only just becoming apparent and the demand for the services we offer continues to grow throughout the Asia Pacific region.

There is a remarkable team and pool of talent now available to the company and this depth of management expertise means we have the strength and resources to expand with greater certainty.

I would like to acknowledge the support of our board. It has been a very demanding and testing year and the board, led by Alison, has been a solid and steadfast supporter of the company's strategy and of the management team.

I acknowledge the incredibly able assistance of Richard Keys, our CFO - Abano is blessed in that we have two CEO's with him as part of the team.

The senior management teams are a delight to work with and our clinical partners, in all sectors, have been committed and supportive as we have worked to understand their disciplines and businesses and expand in their professional markets.

I am truly excited at the opportunities ahead for the group and as a shareholder with a considerable amount of my wealth invested here with you, I look forward to growing our returns in the years ahead.

Thank you for listening and thank you for your ongoing support for our strategy.