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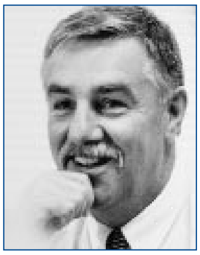
abano healthcare group limited

Making Contact

Abano Shareholder Newsletter

Welcome to issue five of Making Contact, our company newsletter. This newsletter aims to provide you with an update of both the company's progress and industry changes, as well as news from each of Abano Healthcare's operating sectors.

Company Happenings



Alan Clarke
CEO of Abano Healthcare

It has been a busy six months at Abano Healthcare since the end of our last financial year in May. You may have seen the company's name in the newspaper in recent weeks, as we made a number of announcements including:

- A 15 percent capital placement to RECT Funds Management (RFM);
- A sell down by Eric Watson and his Associates (including Cullen Investments) to 19.9 percent of the company's issued capital;
- The acquisition of 100 percent of Auckland Dental Group, to be settled in February 2005;
- The acquisition of a 40 percent stake in Ascot Radiology in February 2005, with an option to acquire a further 40 percent interest in July 2007; and
- A commitment to develop two of our aged care facilities, with 21 serviced apartments at our premier waterfront property in Whitianga; and 14 new beds at Gracelands nursing home.

Our annual meeting was held on Monday 29 November in Auckland, and we had good attendance from a number of shareholders and other interested parties. Our chairman, Jim Syme, and managing director, Alan Clarke, discussed the recent announcements with shareholders in more detail.

Also announced at the meeting was a 1 for10 share consolidation, to be bought into effect from 14 December 2004 reducing the number of shares on issue from 260 million to 26 million; and the acquisition of a second new dental practice in Remuera.

Shareholders agreed to all resolutions, including re-electing Price Waterhouse Coopers as external auditors for the company; re-electing Mr Alan Clarke and Mr Jim Syme to the board; ratifying the first placement to RFM; and approving the adoption of a new constitution, which would also allow for the board to place up to 15 percent of the company's capital, as allowed under the new Exchange listing rules.

Mr Syme emphasised that, although the capital placement would result in a dilution of other shareholdings, the long term benefit of a strong, blue chip cornerstone investor such as RFM, was of significant value to all share holders. The second placement of 7.5 percent of the issued capital of the company went unconditional at the meeting, following approval of Resolution 4 by shareholders. This resulted in a further 18,244,743 shares being placed with RFM at 13 cents per share, for an additional investment of $2.3 million.

The focus for the presentations was on the company's progress in each of its four healthcare and medical services sectors, and the four year positive trend in the Group's consolidated EBITDA result and operating revenue.

Although we faced a disappointing loss last year, we are pleased with the overall progress of the Group in the past four years. We have successfully transitioned from purely an aged care provider to a major player in the healthcare and medical services industry in New Zealand.

Our investments and acquisitions in the past four years have allowed us to develop a strong foundation for the Group, and our plans for the future are to continue to grow, utilising economies of scale and back office synergies to create a dynamic and successful company.

After a challenging year in 2003, in which we focused on consolidating and strengthening the infrastructure of the organisation, we are now in a strong position to build our company for the future, and to take advantage of the many opportunities in the healthcare and medical services industry.

Aged Care

DEVELOPMENTS UNDERWAY AT ELDERCARE

Abano Healthcare has recently announced investment in two new developments for ElderCare; with a third expansion almost complete.

Whitianga serviced apartments

The planned development activity will add 21 serviced apartments to the premium waterfront Whitianga Continuing Care facility, expanding the services offered in this beachside community and providing attractive integrated independent living accommodation for older people. It is projected to cost $5.5 million and apartments will be sold under a Licence to Occupy (LTO). Projections indicate the investment will return in excess of 25 percent on the funds employed.

Gracelands

Additionally, ElderCare will expand the bed capacity at Gracelands Retirement Village and Nursing Home in Hastings, by 14 new beds. The development will be in conjunction with a significant upgrade of the existing facility, with projected returns in excess of 12 percent.

Eldon Lodge

A development at Eldon Lodge in Paraparaumu has been underway for the past six months, and is now reaching completion with the opening of the new dementia care unit planned for early 2005.

The new wing provides dementia care for 13 additional residents in a modern, purpose built facility. Extra outdoor space, communal living areas and security are highlights of the new wing, which has been developed to meet local demand for this specialty aged care service.

Dental

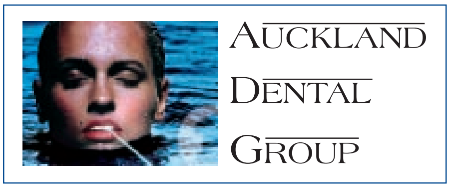
NEW GENERAL MANAGER FOR ABANO DENTAL

Frank Janssen has been appointed as the new general manager for New Zealand's largest dental network, Abano Dental.

Frank has been involved in a variety of industries, in senior management roles, with his most recent role as CEO of Greenwood Technology, producing software for the North American market. He also has previous experience in the healthcare market, working for Zuellig Pharma, in both operational and strategic capacities.

Frank's new role sees him taking responsibility for the strategy and growth of Abano Dental, as the sector looks to maximise return on this year's investment into new dental software and customer management systems.

NEW BRAND ON ITS WAY FOR ABANO DENTAL

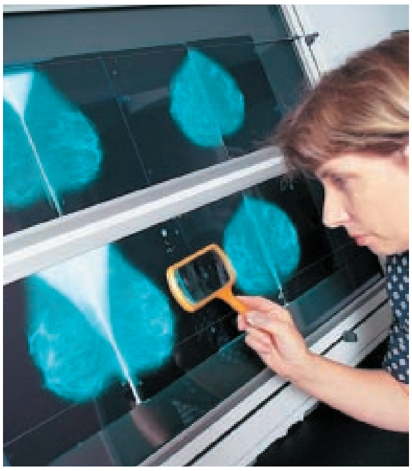


Abano Dental is stretching its wings, with the acquisition of 100 percent of Auckland Dental Group on 1 February, 2005. This successful practice operates in the higher end of the market, and adds a second brand level to Abano Dental, with future investments in other community based practices planned to support the development and evolution of this brand. A second acquisition for this new brand was recently announced at the company's AGM, with settlement on the Victoria Avenue Dental Centre planned for early 2005. Both of these acquisitions are 100 percent private revenue generating.

Abano entered the dental market in November 2002, with the purchase of Geddes Dental Group. Since this time, significant investment has been made into both software and management processes, and the sector is now well placed to grow organically and through acquisition, offering substantial back office synergies and savings as the network expands.

Diagnostics

NEW RADIOLOGY SERVICE FOR ABANO DIAGNOSTICS



As New Zealand's population ages, the need for enhanced diagnostic and interventional services such as radiology increases. This service has been identified as an attractive sector for investment by Abano Healthcare and one which offers additional potential for the Group.

The company recently announced the acquisition of a 40 percent holding in Ascot Radiology, to take place in February 2005, with an option to take a further 40 percent interest by July 2007. Ascot Radiology was established in 1999 at Ascot Hospital on Green Lane Road East, Auckland, and is a specialised radiology centre formed as a joint venture between Dr David Rogers, Dr David Milne, The Radiology Group and Calan Healthcare Property Trust.

The business provides a total imaging service including MRI Scanning, CT Scanning, Ultrasound Scanning, Mammography, Interventional Radiology, Angiography, Bone Densitometry (DEXA), and Conventional Imaging, all with modern high tech equipment. It services the radiology needs of approximately 45 medical and surgical specialists who practise or undertake procedures at Ascot Hospital.

In addition, the company advised that it is developing discussions to acquire an 80 percent interest in a second radiology practice, planned for completion in early 2005. Both businesses will form a part of Abano Diagnostics and will compliment the community pathology laboratory testing businesses already owned by the Group.

The investment in Ascot Radiology and in a second radiology practice provides a new service for Abano Diagnostics and offers complimentary synergies with the existing businesses within the sector, introducing a new diagnostics stream that is predominantly private fee payment, and with strong growth opportunities.

Rehabilitation

NEW BUSINESS OPPORTUNITIES FOR REHABILITATION SECTOR

Following a management and operational restructure in the last financial year, Abano Rehabilitation is taking advantage of its strong infrastructure to develop new business opportunities. The strategy is to expand on the organisation's core competencies, by widening current scopes of practice and expanding into new rehabilitation markets.

A new business opportunity that is proving a success nationally is the development of a partnership with Workbridge, a non-profit organisation who deliver vocational work. This has lead to expansion and growth of the existing vocational contracts held by both organisations, with Abano Rehabilitation providing vocational assessment and rehabilitation services. It has also lead to the exploration of a very new opportunity in the emerging private and insurance markets.

Abano Rehabilitation is facilitating a change in the traditional approach to the treatment of mild traumatic brain injury, in order to reach a wider audience. This new direction will help to ensure access to services for those living in rural New Zealand, or in areas with poor access. In addition, we are scoping the sports related concussion market.

The management team is working with current purchasers to identify better outcomes for our Maori client group, by piloting a programme which aims to achieve better long-term outcomes in regards to returning to a home environment and the community, as well as to relevant paid employment.

The Burtons' Tauranga team has successfully implemented the new comprehensive pain assessment contract, leading the way by offering an early intervention, multidisciplinary, team approach to this contract. This is based on international best practice and aimed at addressing pain in the early stages of the pain cycle as well as offering intervention for chronic pain sufferers, resulting in better outcomes such as improved quality of life and the ability for these clients to return to work, as well as offering significant cost benefits long-term.

Healthcare Market Update

FUNDING ISSUE LOOMS IN HEALTHCARE

As local District Health Boards battle funding issues caused by devolution and the growing demand for healthcare and medical services, providers of these services are adding their voices to the call for more dollars to ensure quality care for our elderly and in-need populations.

A funding crisis is looming in the healthcare industry in New Zealand, with several recent reports highlighting the gap between the level of funding and the cost of quality care. Mr Kim von Lanthen from the Health Funding Association of New Zealand, recently reported that public health inflation had leapt to an estimated eight percent per annum in the past three years, greatly in excess of CPI inflation.

He further commented that projections by the Ministry of Health in the 1990's suggested that public health spending into the future was sustainable, a view supported by Treasury. However, now both Health and Treasury projections have been revised, and by updating the data for the current level of health inflation, public health expenditure is calculated to grow exponentially to over 63 percent of GDP by 2050. This excludes the additional funding required when the removal of asset testing comes into play next year.

In 2005, the Government have elected to fund approximately 95 percent of aged care, increasing it to 100 percent free care by about 2008. This means that in the next year, he estimates the cost to the Government will increase from the current $520 million to an estimated $1.1 billion and this will grow to over $4.0 billion by 2050. Mr von Lanthen concluded by saying that current healthcare funding was clearly an unsustainable position for the taxpayer.

Alan Clarke, managing director of Abano Healthcare believes the role of the private sector for both funding and delivery is vital to ensure New Zealand will enjoy a first world health system. One proposal being put forward for consideration by health funding bodies is a Government subsidy to pay for private medical insurance, and there is recognition that the current rolling restructuring of public health delivery in the hope of reducing costs further, is not a viable long term answer to this problem.

Alan commented: "Would it not be better to put funding to one side and then design the most ideal health delivery system we can for all New Zealanders, based on first world outcomes, with improved community and secondary access to services, technologies and clinicians?

"The next step would be to cost this ideal system and only then sit back and say, 'OK, the Government can only pay for X amount based on a fiscally responsible percentage of Government spending and, therefore, the balance must be found by encouraging the private sector to invest in and fund the gap'; rather than the way we have historically approached this problem by commissioning yet another cost review of services with the ideological barrier that the Government simply must fund own and deliver the service?

"The result is, and has been, that health is now the single largest sector of Government expenditure and DHB planners are openly saying that we can't expect health services at the upper end of the OECD and perhaps we need to settle for second world delivery."

Alan encourages all New Zealanders to enter this important debate.

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