

CHAIRMAN'S REPORT

YEAR IN REVIEW

Over the past five years we have focused on creating a company that is recognised as the leading investor and operator in the healthcare and medical services market in New Zealand.

This has meant ensuring we have the right businesses and partnership models in our portfolio to maximise our return on investment to our shareholders, an appropriate capital and financial structure, and a committed and experienced management team to lead the company forward.

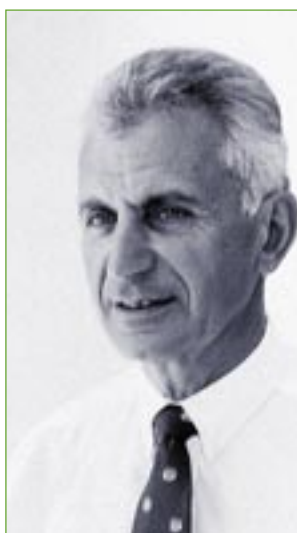
In the 2004/05 financial year, we built on our successful investments in the diagnostic and dental sectors. We also initiated a review and implemented the divestment process for our aged care business, which we identified as not meeting our return on investment criteria.

We announced the completion of the aged care sector review and, following year end, the sale of the Group's aged care business, ElderCare, to The Macquarie Group for NZ\$63.5 million. This sale was approved by shareholders at a special meeting and settled in July 2005, leaving the Group in a strong financial position for our future development.

We completed successful investments in our dental and diagnostic sectors and progressed acquisition investment discussions with Bay Audiology which was announced soon after year end.

We now have a solid portfolio of businesses which provide, or are projected to provide, returns on invested capital that exceed Abano's cost of capital, generate balanced revenue streams and offer significant potential for future growth.

We believe we have some of the most experienced healthcare and management executives and clinical professionals working for Abano. These individuals continue to show commitment and dedication to the businesses and organisations they manage and the patients for whom they care and all are an essential part of the Abano Group's success.



CHAIRMAN'S REPORT CONT

FINANCIAL PERFORMANCE

Abano reported an increase in consolidated revenues from \$64.9 million in 2003/04 to \$66.7 million, and an improvement in EBITDA from \$6.8 million in the previous financial year to \$7.6 million this year. The result was a net loss after tax of \$38,000, an improvement from the loss of \$0.5 million reported in the previous financial year.

The benefits from the ElderCare sale will be seen in the 2005/06 financial year.

OUR PLACE IN THE CHANGING HEALTHCARE MARKET

We are seeing a change in how healthcare and medical services are funded. Demand is outstripping the Government's ability to spend in this sector, and private payment, from individuals or through private medical insurance, is becoming a necessity.

We have followed these changes carefully, and this year undertook a considered and in-depth appraisal of each of our operating sectors and businesses. Our goal was to ensure that our capital funds were invested appropriately, and to identify other areas in which we could expand the Abano portfolio.

Our findings were that definite opportunities for growth and development exist in many healthcare and medical sectors, including our existing operating sectors - diagnostics, dental and rehabilitation. However, despite good revenue flow, the return from the highly capital intensive aged care sector was below our minimum investment criteria.

We therefore made the decision to sell our aged care business, ElderCare, to The Macquarie Group, for NZ\$63.5 million, and invest the funds in other less capital intensive and more profitable businesses.

We are now in a position where we can deliver increased returns to our shareholders and invest in our future.

GROWING OUR COMPANY

We have made a number of acquisitions in the last year, strengthening the Group's existing businesses and diversifying into new areas of the healthcare and medical services market. In February 2005, we announced the acquisition of 40 percent of Ascot Radiology, our first investment in the radiology sector.

We also progressed our dental strategy, with the launch of a new dental network identity, Lumino, to replace the Geddes Dental brand acquired in November 2002. Several dental practices were acquired during this financial year, including The Auckland Dental Group, Victoria Ave Dental and Dargaville Dental. Since year end, we have also announced the acquisition of dental practices in Hamilton and Te Awamutu, providing a platform for our continued expansion outside of Auckland.

Since year end, further announcements on acquisitions have been made. These include the acquisition of 70 percent of Bay Audiology and the announcement that a further two businesses are under investigation - one in diagnostics and one in the rehabilitation sector. These investments will enhance our existing businesses, with Bay Audiology opening up a new and profitable healthcare sector for the Group.

The Group's acquisition strategy continues to identify businesses where we can enter partnerships with clinical management teams and add value by focusing on disciplined management processes and investment synergies. We do this by investing in businesses which will enhance shareholder value and improve the financial position of the Group. Each business must show the potential for sustainable future growth, and must meet minimum ROIC benchmarks.

In the 2004/05 financial year, our ROIC at EBITDA for the Group was around ten percent. We expect this to improve to over 15 percent across the Group in the current financial year, following the sale of the capital intensive aged care business, and grow to over 20 percent over the next three years.

Importantly, our bottom line profit is now expected to move firmly into the black and yield a return on our invested capital in three years time of over 13 percent.

RETURNING BENEFIT TO OUR SHAREHOLDERS

Our policy for the past five years has been to re-invest all capital and returns into the growth of the Group. Our projections show that increasing cash flows will allow us to initiate an annual dividend programme from the 2005/06 financial year onwards.

The retirement of substantial borrowings following the ElderCare sale provides us with sufficient capacity to debt fund our planned acquisitions, as well as to make a cash return to shareholders by way of the recently announced pro-rata 1:6 share buyback. We are very pleased with the opportunity this provides us to acknowledge our shareholders continued support of the Group and its strategy.

DIRECTORS

The board currently consists of three independent directors, one non-executive director and two executive directors. Non-executive director, Maurice Kidd, and executive director, Clint Teague, have both announced that they will retire from the board at the annual meeting on 23 September 2005.

Maurice has been a valued member of the board since his appointment as a director representative for shareholder, Cullen Investments Limited, in 2000. He helped to oversee the Group's initial listing as an aged care business, and its subsequent development into a diversified healthcare and medical services group.

Clint Teague has been an executive director of the Abano board since February 2002, and a valued director and consultant for Abano's diagnostic business, Wellington Pathology Limited. His understanding of the medical industry and management of medical and healthcare businesses has been an asset to the board.

Abano board policy is that any board appointed director will be independent. Two new independent directors will be proposed by the board at the annual meeting.

OUR PEOPLE

Our success is derived from our people whose commitment, expertise and enthusiasm lead to an improvement in the health and quality of life for the thousands of people we diagnose, care for and treat every day of the year.

The healthcare and medical services market is continually changing, and our staff make a huge contribution to enabling our businesses to cope and adapt in this important and demanding working environment.

On behalf of the board and shareholders, we would like to recognise and thank all our staff for their efforts and dedication to our patients and clients.

OUTLOOK

Our focus remains on improving the bottom line performance of the Group and our future lies in growing our presence in our established sectors while continuing to seek new and compatible, high value opportunities within the healthcare and medical services market. Our established infrastructure can then help to decrease costs, improve operational processes and drive increased returns and bottom line results for individual businesses across the Group.

The demand for healthcare and medical services will continue to grow and our aim is to ensure we invest in businesses which have proven their ability to meet this demand, provide quality services to clients and patients and are leaders in their sectors. Our model is to partner with successful clinical management teams where we can compliment their skills and provide support and inputs that enable their businesses to realise their full potential.

We will continue to work closely with public health funding bodies at national, regional and local levels to ensure our businesses are positioned to provide the best outcomes and care for our clients. Our aim is to achieve a balance between the very important Government funding and private revenue.

Your board remains committed to the established strategy of the Group and to building on our successful portfolio of healthcare and medical service businesses, improving the return on invested capital and making Abano a successful investment for all shareholders.

A handwritten signature in black ink, appearing to read 'Jim Syme', written in a cursive style.

Jim Syme
CHAIRMAN