

Abano Healthcare Six Month Report to Shareholders

2004



DIRECTORY

DIRECTORS

James Michael Robert Syme

Chairman

Appointed 31 October 2001

Alan William Clarke

Appointed 31 October 2001

Maurice George Kidd

Appointed 15 March 2000

Philip Samuel Newland

Appointed 31 October 2001

Alison Mae Paterson

Appointed 16 October 2002

Clinton Adam Teague

Appointed 28 February 2002

AUDIT COMMITTEE

M.G. Kidd (Chairman)

A.M. Paterson

J.M.R. Syme

REMUNERATION COMMITTEE

A.M. Paterson (Chairman)

P.S. Newland

J.M.R. Syme

REGISTERED OFFICE AND ADDRESS FOR SERVICE

Ground floor
2 Hargreaves Street
College Hill
Auckland

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland

BANKERS

Westpac Banking Corporation
Westpac Trust Tower
120 Albert Street
Auckland

SOLICITORS

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay Street
Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
Auckland

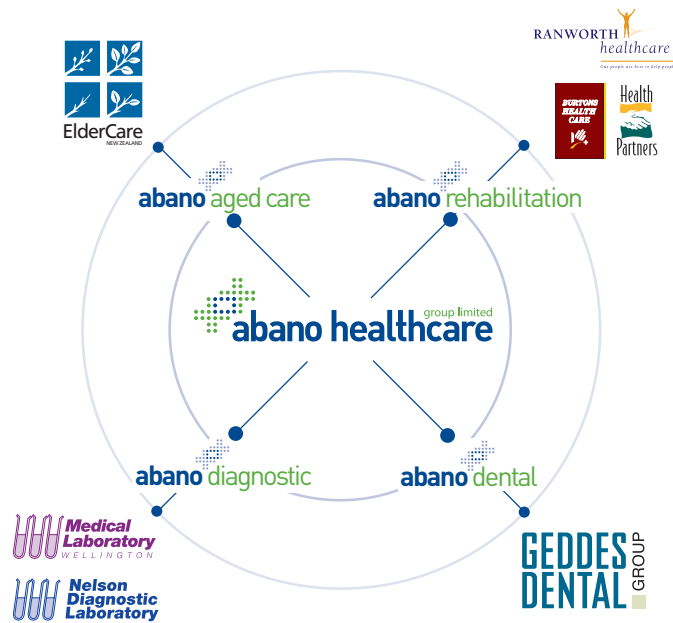
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COMPANY STRUCTURE



HIGHLIGHTS

- Revenues increased to \$33.74 million for the six months to 30 November 2003, up 24.6 percent on the previous corresponding half year (\$27.09 million).
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) increased to \$4.51 million, up 6.5 percent on the same period last year (\$4.23 million).
- Following partial utilisation of the deferred tax asset, which was recognised in the last financial year, a non-cash tax expense of \$0.41 million was incurred in this period, resulting in a consolidated Net Profit After Tax (NPAT) of \$0.31 million, compared to the \$0.67 million posted for the same period last year, when no tax expense was incurred.
- Two new businesses were acquired in the Rehabilitation sector on 31 July 2003 - Burtons Healthcare and Health Partners.
- The Company announced its renaming as Abano Healthcare Group Limited on 30 August 2003.
- Richard Keys was appointed as chief financial officer in August 2003.

CHAIRMAN'S REPORT

FINANCIAL PERFORMANCE

The six-month period to 30 November 2003 has shown continued progress for Abano Healthcare Group Limited, and all four sectors have contributed positively, resulting in good core revenue growth and increased consolidated cash flows.

Overall, the business grew well, both organically and through acquisitions, with half-year revenues at \$33.74 million, 24.6 percent up on last year's result of \$27.09 million. Consolidated Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) cash flows also improved to \$4.51 million, up 6.5 percent on the \$4.23 million achieved in the same period last year. However, the consolidated EBITDA margin fell by two percent, from 15.6 percent to 13.4 percent, following soft performances by the Aged Care and Diagnostic sectors and the budgeted low margin contribution from Dental in the period.

Reduced interest costs and no minority share in the current period, were offset by increased non cash amortisation of good will and depreciation charges, following the acquisitions made in the Dental and Rehabilitation sectors.

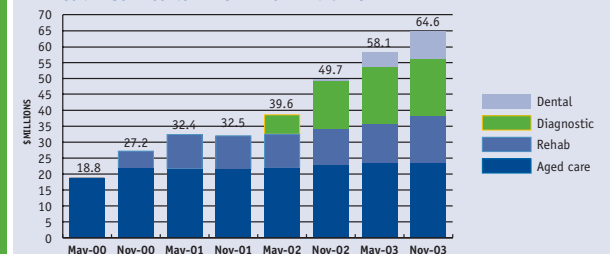
Following partial utilisation of the deferred tax asset that was recognised in the last financial year, a non-cash tax expense of \$0.41 million was incurred in this period, resulting in a consolidated Net Profit After Tax (NPAT) of \$0.31 million, down on the \$0.67 million posted for the same period last year when no tax expense was incurred.

Reduced occupancy and low referrals across the Group softened yields in the period, however a marginally higher EBITDA performance was achieved compared to last year. The Aged Care sector experienced a sustained drop in occupancy, mainly in rest home facilities and their EBITDA result was significantly down from their previous year's first half-year performance. The Rehabilitation sector posted an EBITDA result that was ahead of the same period last year, as well as consolidating two new business acquisitions.

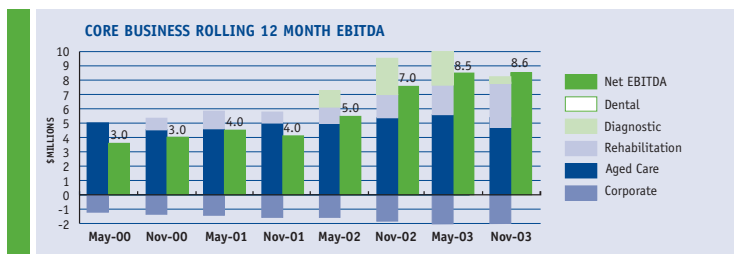
The Diagnostic sector came in flat on its performance in the same period last year and Dental contributed an EBITDA result that was in line with its plan in the period. The net effect was a decrease in operating margin in the period, compared to the previous year's performance.



CORE BUSINESS ROLLING 12 MONTH REVENUE



CHAIRMAN'S REPORT CONT



INVESTMENTS AND ACQUISITIONS

Strong positive cash flows in the six months to November 2003 allowed us to invest in renovations and refurbishments at two of our Aged Care facilities - Eldon Lodge and Riverview - as well as complete a 17 room extension and upgrade of our Whitianga aged care property.

The business also grew through the acquisition of two new rehabilitation businesses in July 2003, Burtons Healthcare and Health Partners, as well as the purchase of the minority 33 percent holding in Ranworth Healthcare. Both new brands and identities will continue to be used independently and back office synergies will be realised over time. The two businesses are trading positively and to their acquisition plans. Abano Rehabilitation is now the leading provider of brain injury rehabilitation services in New Zealand.

The Group funded all acquisitions, expansions and renovations in the period, primarily through operational cash flows, aided by cash receipts from residual land asset sales from the previous year.

After funding these initiatives, as well as repaying a \$1.1 million convertible note in January 2003, Group debt increased to \$35.4 million at 30 November 2003, compared to \$34.5 at 30 November 2002. In November 2003, \$3,526,654 of the residual convertible note in favour of Cullen Investments Limited converted to shares, resulting in the issuance of 18,561,337 shares being 9.5 percent of the issued capital.

NAME CHANGE

As announced in the 2003 annual report, the Company has been renamed as Abano Healthcare Group Limited. The Company remains the same in all aspects, apart from the name change, which simply marks our final move away from our roots as a retirement village developer to that of a multi-discipline healthcare and medical services provider.

MANAGEMENT APPOINTMENTS

In August 2003, Richard Keys, the former general manager business development for Abano, was appointed as chief financial officer, following the resignation of Brian Monk. Richard joined Abano Healthcare Group in 2002 and brings with him experience in both public and private healthcare, with a background in accounting and general management roles.

Following the end of the first half-year, two new senior management appointments were made. Karen Schneller has been appointed as general manager of the Rehabilitation sector, following the retirement of Graham Menary in December. Karen was previously general manager and a principal of Burtons Healthcare and Health Partners and brings with her a wealth of experience in the rehabilitation industry.

In addition, Robin Cooper, an experienced health sector executive, was appointed as acting general manager for the Dental sector, following Keith Pine's retirement from his management role. Keith will continue to assist the company on an advisory basis.

THE OUTLOOK

In spite of good revenue progress over the first half year, the Group has experienced softer than forecast margin trading over the holiday period. This now leads the board to believe that the expected improvements in margins previously signalled for the second half of the financial year, will now not be sufficient to facilitate the forecast second half performance.

The drop in occupancy in the Aged Care sector rest homes has continued into January, and although improvements are expected in the second half, the full year performance for the sector will be down on its plan and last year's result.

Rehabilitation referrals have also softened in recent months; however, Ranworth Healthcare has renegotiated a new in-patient contract with ACC that will impact positively in the second half of this financial year. Burtons and Health Partners are performing to plan and the sector's full year's result will be ahead of last year's but below plan.

Diagnostics has agreed a new contract with a key DHB client and has secured additional cytology referral work that will impact from February onwards. Its full year performance is still expected to be flat on last year but in line with its plan.

The Dental sector is currently investing in a significant new IT platform, installing the Software of Excellence dental management package, a new billing system and a new payroll system. While expecting a positive EBITDA contribution for the full year, the Dental sector's second half performance is now expected to be below plan as management and technology settles into place in the coming months.

As a consequence, the board now believes that the full year consolidated performance will see revenues in the range of \$65 to \$67 million. Consolidated core EBITDA performance will be in line with last year's core result and the core NPAT will be below last year's core result, after a full period tax expense is incurred.

The Company has doubled in size over the last three years and we are confident that improved trading and margins will be achieved over the medium term, following the consolidation of new businesses, technology investments and with improved referrals and contract certainty with District Health Boards and the ACC in key business areas.

We have made good progress to date and we operate in a market that has increasing demands for all our services. There will be opportunities and structural changes to absorb as the funding implications of healthcare of an aging population sink in to Government policy. Our trading margins will also improve, as reflected by the fundamental demand for our services, and as seen by the increasing core revenues in all trading sectors.

The board is committed to the future of Abano Healthcare Group as a successful healthcare and medical services provider, and supports its strategic objectives of sustained growth, improving bottom line performance and increasing return for our shareholders.

I would like to thank all our staff for their commitment, professional skills and dedicated care for the more than 4,000 New Zealanders that we care for every day of the year. I would also like to thank all our shareholders for their ongoing support of Abano Healthcare Group and our business strategy.

On behalf of the board of directors,

Jim Syme
CHAIRMAN

STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 30 November 2003

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
Revenue	33,736	58,328	27,092
Operating surplus before income tax	710	2,396	973
Income tax (expense)/benefit	(405)	389	-
Operating surplus after income tax	305	2,785	973
Minority interest in surplus of subsidiary	6	(786)	(302)
Net surplus attributable to shareholders of the company	311	1,999	671
COMPRISING			
Operating surplus from continuing activities	311	1,999	671
	311	1,999	671

STATEMENT OF MOVEMENTS IN EQUITY AND CAPITAL FUNDS

For the six months ended 30 November 2002

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
Equity and capital funds at beginning of period	41,983	41,540	41,540
Net surplus for the year	311	1,999	-
Minority interests in current year retained earnings	(6)	786	671
Foreign currency translation reserve	(3)	(3)	-
Total recognised revenues and expenses	302	2,782	671
OTHER MOVEMENTS			
Ordinary shares issued during the period	3,566	190	23
Optional convertible notes	(3,167)	(2,394)	(1,809)
Mandatory convertible notes converted during the year	-	(127)	-
Reduction in value of mandatory convertible notes	-	(19)	-
Minority interest acquired during the period	-	11	326
Dividends declared to minority interests during the period	(1,252)	-	440
Equity and capital funds at end of period	41,432	41,983	41,191

STATEMENT OF FINANCIAL POSITION

For the six months ended 30 November 2003

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
SHAREHOLDERS' EQUITY			
Share capital	56,013	52,447	52,279
Share options reserve	-	-	1,000
Accumulated losses	(18,933)	(19,243)	(21,570)
Foreign currency translation reserve	(6)	(3)	-
Shareholders' equity	37,074	33,201	31,709
Minority interest	(23)	1,235	765
Total equity	37,051	34,436	32,474
CAPITAL FUNDS			
Mandatory convertible notes	-	-	146
Optional convertible notes	4,381	7,547	8,131
Equity to be issued as acquisition consideration	-	-	440
Total capital funds	4,381	7,547	8,717
Total equity and capital funds	41,432	41,983	41,191
NON-CURRENT LIABILITIES			
Borrowings	35,383	32,209	34,535
Deferred income	263	216	387
Deferred tax liability	17	-	-
Total non-current liabilities	35,663	32,425	34,922
CURRENT LIABILITIES			
Bank overdraft	1,083	1,051	355
Payables and accruals	6,925	5,851	6,937
Borrowings	43	70	149
Total current liabilities	8,051	6,972	7,441
Total liabilities	43,714	39,397	42,363
TOTAL EQUITY, CAPITAL FUNDS AND LIABILITIES	85,146	81,380	83,554

STATEMENT OF FINANCIAL POSITION

For the six months ended 30 November 2003

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
CURRENT ASSETS			
Cash and bank balances	392	930	1,322
Receivables and prepayments	8,911	9,527	7,725
Inventories	952	1,022	1,229
Properties intended for sale	-	-	2,903
Investments in listed securities	4	4	2
Deferred tax asset	-	389	-
Total current assets	10,259	11,872	13,181
NON-CURRENT ASSETS			
Receivables and prepayments	366	419	879
Other investments	5	5	5
Property, plant and equipment	55,469	54,486	54,725
Intangible assets	19,047	14,598	14,764
Total non-current assets	74,887	69,508	70,373
TOTAL ASSETS	85,146	81,380	83,554

STATEMENT OF CASH FLOWS

For the six months ended 30 November 2003

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows from operating activities	34,751	57,468	27,634
Cash outflows from operating activities	(30,934)	(52,645)	23,687
Net cash inflow from operating activities	3,817	4,823	3,947
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows from investing activities	611	5,461	2,580
Cash outflows from investing activities	(7,714)	(5,220)	4,996
Net cash inflow from investing activities	(7,103)	241	(2,416)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflow from financing activities	5,190	5,240	3,340
Cash outflow from financing activities	(2,474)	(11,323)	4,802
Net cash inflow from financing activities	2,716	(6,083)	(1,462)
Net (decrease)/increase in cash held	(570)	(1,019)	69
Add opening cash brought forward	(121)	898	898
Cash at end of period	(691)	(121)	967
Cash comprises:			
Cash at bank	392	930	1,322
Bank overdrafts	(1,083)	(1,051)	(355)
	(691)	(121)	967

RECONCILIATION OF NET PROFIT FOR THE PERIOD WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

For the six months ended 30 November 2003

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
Net surplus for the period	311	1,999	671
Add minority interest in surplus of subsidiaries	(6)	786	302
	305	2,785	973
Adjusted for non-cash items:			
Depreciation	1,670	2,597	1,179
Amortisation of intangible assets	511	769	335
Utilisation/(recognition) of deferred tax asset	405	(389)	-
Interest expense on convertible notes	266	257	-
Interest income on advances made to executives	80	(192)	-
Executive compensation expense	15	89	-
Other non-cash	-	(4)	-
	2,947	3,127	1,514
Movement in working capital:			
Decrease/(increase) in receivables and prepayments	739	(232)	430
Increase/(decrease) in accounts payable and accruals	(444)	(366)	525
Increase/(decrease) in deferred income	53	(153)	(58)
Increase/(decrease) in GST payable	221	-	(91)
	569	(726)	806
Items classified as financing activities:			
Convertible notes interest paid	-	761	475
	-	761	475
Items classified as investing activities:			
Add back cost of sales - investing activity	(4)	(133)	179
Realised gain on sale of properties	-	(927)	-
Investment income	-	(39)	-
	(4)	(1,099)	179
Net cash flows from operating activities	3,817	4,823	3,947

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half year ended 30 November 2003

1. Statement of accounting policies

The accounting policies applied in the preparation of the interim financial statements are consistent with those used in the previous annual report and the previous interim financial statements.

These interim financial statements are prepared in accordance with FRS-24: Interim Financial Statements and should be read in conjunction with the previous annual report for the year ended 31 May 2002.

2. Financial Performance

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
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Net profit for the period included the following:

Interest income	91	252	18
Interest expense	1,615	3,659	1,742

There have been no material provisions or write-downs made in the current period (31 May 2003: nil; 30 November 2002: nil).

3. Contingent liabilities

The group has no contingent liabilities as at 30 November 2003 (31 May 2003: nil; 30 November 2002: nil).

4. Commitments

The following amounts have been committed to by the Group or Parent but have not been recognised in the financial statements:

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03 \$000	AUDITED 12 MONTHS ENDED 31-MAY-03 \$000	UNAUDITED 6 MONTHS ENDED 30-NOV-02 \$000
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Operating leases			
Non-cancellable lease commitments			
Within one year		1,382	1,522
One to two years		1,089	915
Two to five years		1,011	656
Later than five years		121	649
		3,603	3,742

NOTES TO THE INTERIM FINANCIAL STATEMENTS

5. Earnings per share

ELDERCARE NEW ZEALAND LIMITED AND SUBSIDIARIES	UNAUDITED 6 MONTHS ENDED 30-NOV-03	AUDITED 12 MONTHS ENDED 31-MAY-03	UNAUDITED 6 MONTHS ENDED 30-NOV-02
Basic earnings per share, in cents	0.16 cents	1.03 cents	0.35 cents
Diluted earnings per share, in cents	0.13 cents	0.75 cents	0.24 cents

Undiluted earnings per share is calculated by dividing the net surplus for the period by the weighted average number of shares on issued during the period.

Fully diluted earnings per share is calculated by dividing the net surplus for the period by the weighted average number of shares and convertible notes on issue during the period. Where conversion prices of convertible notes are variable the theoretical quantity of shares to be issued has been calculated based on the weighted average ordinary share price for the 10 days prior to period-end. Fully diluted earnings per share for the periods ended 31 May 2003 and 30 November 2002 included the impact of options which expired in April 2003.

In accordance with IAS33, where the fully diluted earnings per share is more favourable than undiluted earnings per share (that is, when the company has made a loss) the more favourable fully diluted earnings per share is not disclosed.

6. Subsequent events

There have been no events subsequent to period-end which might materially affect the Group's financial performance or financial position.

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