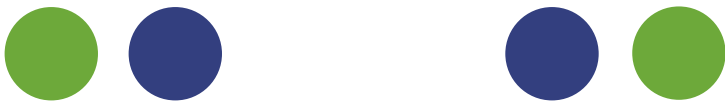


# Abano Healthcare Financial Statements

2005



## DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 31 May 2005

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 May 2005 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

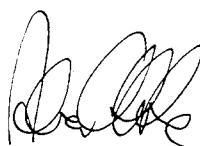
The directors have pleasure in presenting the financial statements of Abano Healthcare Group Limited, set out on pages 44 to 69, for the year ended 31 May 2005.

The financial statements presented on the following pages were authorised for issue on 28 July 2005.

For and on behalf of the Board



**Jim Syme**  
**CHAIRMAN**



**Alan Clarke**  
**MANAGING DIRECTOR**

28 July 2005

# AUDITORS' REPORT

as at 31 May 2005

**PricewaterhouseCoopers**

188 Quay Street  
Private Bag 92162  
Auckland New Zealand  
DX CP24073  
Telephone +64 9 355 8000  
Facsimile +64 9 355 8001

## AUDITORS' REPORT

TO THE SHAREHOLDERS OF ABANO HEALTHCARE GROUP LIMITED

We have audited the financial statements on pages 42 to 67. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 May 2005 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 47 and 48.

## DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 May 2005 and their financial performance and cash flows for the year ended on that date.

## AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

## BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements.

It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies used are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and carrying out other assignments in the areas of compliance and financial assurance.

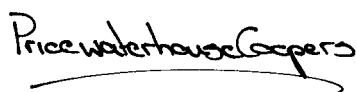
## UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 42 to 67:
  - (i) comply with generally accepted accounting practice in New Zealand; and
  - (ii) give a true and fair view of the financial position of the Company and Group as at 31 May 2005 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 28 July 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland

## STATEMENTS OF FINANCIAL PERFORMANCE

for the year ended 31 May 2005

ABANO HEALTHCARE GROUP LIMITED AND SUBSIDIARIES

	NOTES	GROUP		COMPANY	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue	2	66,742	64,856	5,359	4,497
<b>Operating surplus / (deficit) before income tax</b>	2	299	(427)	(3,676)	(3,576)
Income tax (expense) / benefit	9	(337)	(25)	(335)	178
<b>Net (deficit) attributable to shareholders of the Company</b>		(38)	(452)	(4,011)	(3,398)
<b>Comprising:</b>					
Operating (deficit) from continuing activities		(729)	(285)	(943)	(623)
Operating surplus / (deficit) from discontinued activities		691	(167)	(3,068)	(2,775)
		(38)	(452)	(4,011)	(3,398)

## STATEMENTS OF MOVEMENTS IN EQUITY AND CAPITAL FUNDS

for the year ended 31 May 2005

ABANO HEALTHCARE GROUP LIMITED AND SUBSIDIARIES

	NOTES	GROUP		COMPANY	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Equity and capital funds at beginning of year</b>		40,849	41,983	36,971	39,813
Net (deficit) / surplus for the year	5	(38)	(452)	(4,011)	(3,398)
Interest adjustment on cancellation of executive convertible notes	3	30	-	30	-
Foreign currency translation reserve		-	(3)	-	-
<b>Total recognised revenues and expenses</b>		(8)	(455)	(3,981)	(3,398)
<b>OTHER MOVEMENTS</b>					
Ordinary shares issued during the year	3	6,460	4,858	6,460	4,858
Optional convertible notes	3	(1,659)	(4,302)	(1,659)	(4,302)
Acquisition of minority interest		-	(412)	-	-
Dividends paid to minority interests during the year	6	-	(839)	-	-
Minority interest transferred during the year	6	-	16	-	-
<b>Equity and capital funds at end of year</b>		45,642	40,849	37,791	36,971

## STATEMENTS OF FINANCIAL POSITION

as at 31 May 2005

ABANO HEALTHCARE GROUP LIMITED AND SUBSIDIARIES

	NOTES	GROUP		COMPANY	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	3	63,765	57,305	63,765	57,305
Accumulated losses	5	(19,709)	(19,701)	(27,560)	(23,579)
<b>Total Shareholders' equity</b>		<b>44,056</b>	<b>37,604</b>	<b>36,205</b>	<b>33,726</b>
<b>CAPITAL FUNDS</b>					
Optional convertible notes	3	1,586	3,245	1,586	3,245
<b>Total capital funds</b>		<b>1,586</b>	<b>3,245</b>	<b>1,586</b>	<b>3,245</b>
<b>Total equity and capital funds</b>		<b>45,642</b>	<b>40,849</b>	<b>37,791</b>	<b>36,971</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	7	495	36,400	157	36,400
Deferred income		-	158	-	-
Deferred acquisition consideration	12	312	-	-	-
<b>Total non-current liabilities</b>		<b>807</b>	<b>36,558</b>	<b>157</b>	<b>36,400</b>
<b>CURRENT LIABILITIES</b>					
Bank overdraft		709	581	640	570
Payables and accruals	16	7,371	6,658	691	722
Borrowings	7	32,810	-	32,760	-
<b>Total current liabilities</b>		<b>40,890</b>	<b>7,239</b>	<b>34,091</b>	<b>1,292</b>
<b>Total liabilities</b>		<b>41,697</b>	<b>43,797</b>	<b>34,248</b>	<b>37,692</b>
<b>TOTAL EQUITY, CAPITAL FUNDS AND LIABILITIES</b>		<b>87,339</b>	<b>84,646</b>	<b>72,039</b>	<b>74,663</b>
<b>CURRENT ASSETS</b>					
Cash and bank balances		343	490	70	43
Receivables and prepayments	15	8,493	8,797	1,740	2,349
Inventories		966	965	-	-
Deferred tax asset	9	50	364	58	393
Investments in listed securities		-	3	-	3
<b>Total current assets</b>		<b>9,852</b>	<b>10,619</b>	<b>1,868</b>	<b>2,788</b>
<b>NON-CURRENT ASSETS</b>					
Receivables and prepayments	15	283	60	283	60
Investments in subsidiaries	12	-	-	35,876	28,221
Investment in associate	13	1,198	-	1,111	-
Advances to subsidiaries		-	-	31,348	41,916
Property, plant and equipment	10	56,501	55,810	150	198
Intangible assets	14	19,505	18,157	1,403	1,480
<b>Total non-current assets</b>		<b>77,487</b>	<b>74,027</b>	<b>70,171</b>	<b>71,875</b>
<b>TOTAL ASSETS</b>		<b>87,339</b>	<b>84,646</b>	<b>72,039</b>	<b>74,663</b>

## STATEMENTS OF CASH FLOWS

for the year ended 31 May 2005

ABANO HEALTHCARE GROUP LIMITED AND SUBSIDIARIES

NOTES	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Receipts from residents, patients and customers	68,669	65,897	3,932	2,700
Goods & services tax received	-	224	2	34
Interest received	16	20	-	-
	68,685	66,141	3,934	2,734
<b>Cash was applied to:</b>				
Payments to suppliers and employees	60,423	57,334	6,513	4,513
Goods & services tax paid	85	-	-	12
Income tax paid	-	413	-	-
Finance lease charges	-	5	-	-
Interest paid	2,913	2,748	2,911	2,748
	63,421	60,500	9,424	7,273
<b>Net cash inflow / (outflow) from operating activities</b>	<b>5,264</b>	<b>5,641</b>	<b>(5,490)</b>	<b>(4,539)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Sale of fixed assets	110	636	3	-
Advances from subsidiaries	-	453	3,852	2,523
Other investment income	-	-	-	3
Dividends from subsidiary	-	-	325	-
	110	1,089	4,180	2,526
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment	3,912	5,061	19	104
Purchase of investments in subsidiaries	12	4,928	-	1,582
Purchase of investment in associate	13	-	-	-
	6,923	9,989	19	1,686
<b>Net cash (outflow) / inflow from investing activities</b>	<b>(6,813)</b>	<b>(8,900)</b>	<b>4,161</b>	<b>840</b>

## STATEMENTS OF CASH FLOWS

for the year ended 31 May 2005

ABANO HEALTHCARE GROUP LIMITED AND SUBSIDIARIES

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Issue of ordinary shares	5,052	-	5,052	-
Proceeds from borrowings	6,699	7,390	6,699	7,390
	11,751	7,390	11,751	7,390
<b>Cash was applied to:</b>				
Repayment of borrowings	10,477	3,180	10,465	3,179
Finance lease principal repayments	-	82	-	-
Dividends paid to minority interests	-	839	-	-
	10,477	4,101	10,465	3,179
<b>Net cash inflow / (outflow) from financing activities</b>	<b>1,274</b>	<b>3,289</b>	<b>1,286</b>	<b>4,211</b>
<b>Net increase / (decrease) in cash held</b>	<b>(275)</b>	<b>30</b>	<b>(43)</b>	<b>512</b>
Add opening cash brought forward	(91)	(121)	(527)	(1,039)
<b>Cash balance at end of year</b>	<b>(366)</b>	<b>(91)</b>	<b>(570)</b>	<b>(527)</b>
<b>Cash comprises:</b>				
Cash at bank	343	490	70	43
Bank overdrafts	(709)	(581)	(640)	(570)
	(366)	(91)	(570)	(527)

## RECONCILIATION OF NET SURPLUS FOR THE YEAR WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

for the year ended 31 May 2005

ABANO HEALTHCARE GROUP LIMITED AND SUBSIDIARIES

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Net (deficit) for the year	(38)	(452)	(4,011)	(3,398)
	(38)	(452)	(4,011)	(3,398)
<b>Adjusted for non-cash items:</b>				
Depreciation	3,317	3,078	52	31
Amortisation of intangible assets	1,075	1,022	77	66
Utilisation / (recognition) of deferred tax asset	314	25	335	(178)
Interest expense on convertible notes	242	474	242	474
Interest income on advances made to executives	(137)	(136)	(137)	(136)
Executive compensation expense	5	30	5	19
Share of surplus retained by associates	(87)	-	-	-
Other non-cash	-	16	-	-
	4,729	4,509	574	276
<b>Movement in working capital:</b>				
Decrease / (increase) in receivables and prepayments	279	1,300	(790)	(1,580)
Increase / (decrease) in accounts payables and accruals	507	250	(938)	163
(Decrease) / increase in deferred income	(261)	(105)	-	-
	525	1,445	(1,728)	(1,417)
<b>Items classified as investing activities:</b>				
Dividends from subsidiary	48	-	(325)	-
Realised loss on disposal of fixed assets	60	3	-	-
Write down in value of fixed assets	48	136	-	-
	60	139	(325)	-
<b>Net cash flows from operating activities</b>	<b>5,264</b>	<b>5,641</b>	<b>(5,490)</b>	<b>(4,539)</b>

# STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 May 2005

## STATUTORY BASE

The financial statements presented here are for Abano Healthcare Group Limited ("Company") and the consolidated Group comprising Abano Healthcare Group Limited and its subsidiaries.

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. Abano Healthcare Group Limited is an issuer in terms of the Financial Reporting Act 1993 and the Securities Act 1978.

## MEASUREMENT BASE

The financial statements have been prepared on the basis of historical cost principles with the exception of certain items for which specific accounting policies are identified.

## ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

## BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Abano Healthcare Group Limited and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

The purchase method of accounting has been used to consolidate subsidiary companies.

The results of subsidiaries acquired during the year are included in the consolidated statement of financial performance from the date of the acquisition.

Associates, being those entities where the Group has a significant but not controlling interest in, are accounted for using the equity method.

## GOODWILL

Upon acquisition of subsidiary companies fair values are assigned to the specific assets and liabilities taken over. Where the purchase price paid for the acquisition exceeds the fair value of net assets acquired the difference is shown as an intangible asset and amortised over a period of 20 years.

## INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are stated at cost in the statement of financial position of the Company.

## FOREIGN CURRENCIES

### Transactions

Foreign currency transactions are translated into New Zealand currency at the ruling rates of exchange at the date of the transaction. Balances in overseas currencies have been translated to New Zealand currency at the ruling rate of exchange at balance date. All foreign exchange gains and losses are taken to the statement of financial performance.

### Foreign operations

Revenues and expenses of foreign operations are translated to New Zealand dollars at the exchange rates in effect at the date of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars using exchange rates at balance date. Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve.

## REVENUE

### Services

Revenue from nursing homes, private hospitals, village services, rehabilitation services, diagnostic services and dental services is recognised on an accruals basis.

### Licences to Occupy & Property

Revenue is recognised in the statement of financial performance as follows:

#### Initial sale

Revenue is recorded when there is an unconditional sale of a property asset or licence to occupy in place. A surplus is recognised as the difference between the revenue from the sale and the cost incurred in developing the property which is the subject of the sale. Cost includes all costs associated with development including land, materials, construction, capitalised funding costs and other direct costs incurred.

#### Resale

For resales of existing villas or apartments, revenue is the difference between the price of the new licence to occupy after deducting any Lifecare fee and the balance required to be paid for the repurchase of the licence to occupy.

#### Lifecare fees

Lifecare fees are receivable from residents of villas or apartments which have been sold under a licence to occupy agreement. Lifecare fees represent a payment made by the purchaser of a licence to occupy, entitling the purchaser to the use of communal facilities and the right to be provided with care services. They fall into two categories: lifecare fees received in advance, and lifecare fees receivable on termination of the licence to occupy.

#### Lifecare fees received in advance

Lifecare fees received in advance are refundable on a pro-rata basis if the resident terminates their licence to occupy within the initial term of the lifecare fee agreement. The lifecare fee is amortised to the Statement of Financial Performance over the agreement period; the unamortised portion of the Lifecare fee is reflected as deferred income in the Statement of Financial Position.

#### Lifecare fees receivable on termination

Lifecare fees receivable on termination of a licence to occupy are accrued to the Statement of Financial Performance on a monthly basis during the initial term of the lifecare fee agreement; the accrued balance is recorded as a receivable in the Statement of Financial Position. When the occupation licence is terminated and resold the accrued balance is deducted from the proceeds of resale.

#### Other income

Other income is recorded when earned.

## GOODS & SERVICES TAX (GST)

All items in the statement of financial performance and financial position are stated exclusive of GST, with the exception of receivables and payables which include GST invoiced.

## ACCOUNTS RECEIVABLE

Accounts receivable are reported at estimated realisable value after providing for any debts considered doubtful.

# STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 May 2005

## INVENTORIES

Inventories comprise medical supplies and consumables, stated at the lower of cost or net realisable value. Cost is determined on a first in, first out basis.

## PROPERTY, PLANT AND EQUIPMENT

### Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of the other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. The cost of self-constructed assets includes the cost of all materials used in construction, direct labour, costs of obtaining Resource Management Act consents, directly attributable financing costs and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use.

### Depreciation

Depreciation is charged on a straight line basis so as to expense the cost or valuation of the property, plant and equipment to their expected residual value over their estimated useful lives. The estimated useful lives are as follows:

Buildings	50 years
Leasehold improvements	5 years
Computer and office equipment	3 - 5 years
Motor vehicles	5 - 7 years
Plant and equipment	5 - 10 years

## LEASES

### Finance leases

Assets which are the subject of finance leases are recognised as non-current assets in the statement of financial position. Leased assets are recognised initially at the lower of the present value of the lease payments or their fair value. A corresponding liability is established and each lease payment allocated between the liability and interest expense. Leased assets are depreciated on the same basis as equivalent property, plant and equipment.

### Operating leases

Leases which are not finance leases are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

## IMPAIRMENT

Annually, the directors assess the carrying value of each long-lived tangible and intangible asset group. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the statement of financial performance.

## TAXATION

The Group follows the liability method of accounting for deferred taxation.

The tax charge against the result for the year is the estimated liability in respect of that result after allowance for all permanent differences and timing differences not expected to reverse in the foreseeable future. This is the partial basis for the calculation of deferred taxation.

Future taxation benefits attributable to timing differences or losses carried forward are recognised in the financial statements only

where there is virtual certainty that the benefit of the timing differences or losses will be utilised by the Group.

## FINANCIAL INSTRUMENTS

Financial instruments carried on the statements of financial position include cash and bank balances, investments, receivables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged items.

Financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the statements of financial performance.

## EMPLOYEE ENTITLEMENTS

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees. The liability for employee entitlements is carried at the present value of the estimated future cash outflows.

## STATEMENTS OF CASH FLOWS

The following are the definitions of the terms used in the statement of cash flows:

**Operating activities** include all transactions and other events that are not investing or financing activities.

**Investing activities** are those activities relating to the acquisition, holding and disposal of property, plant and equipment, including those items classified as properties intended for sale, and investments. Investments can include securities not falling within the definition of cash.

**Financing activities** are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

**Cash** includes cash on hand and in banks, net of bank overdrafts.

## EQUITY

Costs associated with the issue of shares are recognised as a reduction of the amount collected per share.

## EQUITY BASED EXECUTIVE COMPENSATION

The Company has adopted the fair value method of accounting for its executive convertible note plan. Under this method, the fair value at the grant date is being recognised in the statements of financial performance over the vesting period.

## CONVERTIBLE NOTES

Optional convertible notes are classified as Capital Funds in the equity and capital funds section of the statements of financial position.

## CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

## 1. Segment information

### INDUSTRY SEGMENTS

	AGED CARE		REHABILITATION		DIAGNOSTICS		DENTAL		TOTAL	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
OPERATING REVENUE										
Segment	26,406	24,040	12,266	14,430	18,532	17,981	9,392	8,265	66,596	64,716
Unallocated									146	140
<b>Total revenue</b>	<b>26,406</b>	<b>24,040</b>	<b>12,266</b>	<b>14,430</b>	<b>18,532</b>	<b>17,981</b>	<b>9,392</b>	<b>8,265</b>	<b>66,742</b>	<b>64,856</b>
OPERATING (DEFICIT) / SURPLUS										
Segment*	2,907	2,136	137	981	1,015	955	(442)	(687)	3,617	3,385
Unallocated									(3,655)	(3,837)
<b>Operating (deficit) / surplus after income tax</b>									<b>(38)</b>	<b>(452)</b>
SEGMENT ASSETS										
Property, plant & equipment	51,813	51,541	469	501	2,384	2,335	1,795	1,386	56,461	55,763
Other assets	3,670	3,743	9,794	10,178	10,050	9,563	5,595	3,145	29,109	26,629
<b>Total segment assets</b>	<b>55,483</b>	<b>55,284</b>	<b>10,263</b>	<b>10,679</b>	<b>12,434</b>	<b>11,898</b>	<b>7,390</b>	<b>4,531</b>	<b>85,570</b>	<b>82,392</b>
Unallocated assets									1,769	2,254
<b>Total assets</b>									<b>87,339</b>	<b>84,646</b>

\*Segment results reflect the allocation of attributable Corporate overheads. Unallocated costs are specific to the Company.

### GEOGRAPHIC SEGMENTS

The Group operates in New Zealand.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 2. Operating (deficit) / surplus before taxation

#### Continuing activities

Continuing activities include all corporate overheads. Operating (deficit) / surplus before taxation is stated after charging / (crediting).

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue				
- operating revenue	(40,082)	(40,643)	(4,889)	(4,358)
- non-operating revenue	(94)	(19)	-	-
- interest received	(160)	(155)	(145)	(139)
- dividends received from subsidiary	-	-	(325)	-
Fees paid to principal auditors (PricewaterhouseCoopers)				
- audit fees	142	118	99	37
Fees paid to other accountants*	50	40	36	25
Change in doubtful debts provision	9	4	-	-
Bad and doubtful debts written off	7	4	-	-
Depreciation				
- buildings	42	37	3	-
- property, plant and equipment	1,284	1,075	45	31
- leasehold improvements	58	31	4	-
- motor vehicles	23	171	-	-
Goodwill amortisation	990	913	77	66
Rental expense on operating leases	2,083	2,151	356	290
Interest				
- on borrowings	10	-	-	-
- on convertible notes	242	474	242	474
Directors' fees	150	150	150	150
Equity-based executive compensation expense	5	19	3	19
Donations	14	15	3	2
Provision for closure of Australian dental operation	-	326	-	-
(Gain) on disposal of property, plant and equipment	(48)	-	-	-

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
*Fees paid to other accountants comprise:				
General Accounting				
- KPMG	36	25	36	25
- Grant Thornton	-	7	-	-
- Moore & de Lisle	11	8	-	-
- Ernst & Young	3	-	-	-
	50	40	36	25
Fees paid to accounting firms which are not included in the above but which were incurred in relation to business acquisitions and accounting systems implementation and capitalised into the cost of those assets, comprised payments made to:				
KPMG				
- due diligence on business acquisitions	42	16	25	16

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### Discontinued activities

#### Group

Discontinued activities represent the results of the group's aged care sector, ElderCare New Zealand Limited and its subsidiaries, before allocation of corporate overhead. Eldercare New Zealand Limited was sold on 13th July 2005. All interest expense relating to group bank debt, including overdraft, has been allocated to discontinued activities on the basis that all group bank debt, including overdraft, will be repaid from proceeds of the ElderCare sale. Discontinued activities also include certain costs associated with the ElderCare sale which were incurred prior to 31 May 2005.

#### Company

Discontinued activities include all interest expense relating to group bank debt, including overdraft, on the basis that all bank debt, including overdraft, will be repaid from the proceeds of the ElderCare sale and certain costs associated with the ElderCare sale which were incurred prior to 31 May 2005.

The aged care sector contributed an after tax surplus of \$690,500. Included in this surplus are the revenue and expenses described below.

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue				
- operating revenue	(25,812)	(23,913)	-	-
- gain on sale of villas and apartments	(593)	(124)	-	-
- interest received	(1)	(2)	-	-
Fees paid to principal auditors (PricewaterhouseCoopers)				
- audit fees	90	126	-	-
Change in doubtful debts provision	27			
Bad and doubtful debts written off	31	16	-	-
Depreciation				
- buildings	938	777	-	-
- property, plant and equipment	923	938	-	-
- motor vehicles	49	49	-	-
Goodwill amortisation	85	109	-	-
Rental expense on operating leases	216	131	-	-
Interest				
- on borrowings	2,683	2,775	2,683	2,775
- finance lease charges	-	45	-	-
Equity-based executive compensation expense	3	12	-	-
Donations	1	4	-	-

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 3. Equity and capital funds

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>ISSUED AND PAID UP CAPITAL</b>				
Balance at beginning of year	57,305	52,447	57,305	52,447
Conversion of optional convertible notes	1,387	4,798	1,387	4,798
Shares issued to staff in lieu of bonus payments	21	60	21	60
Share placements	5,052	-	5,052	-
<b>Balance at end of year</b>	<b>63,765</b>	<b>57,305</b>	<b>63,765</b>	<b>57,305</b>
<b>CAPITAL FUNDS</b>				
<b>Optional convertible notes</b>				
Balance at beginning of year	3,245	7,547	3,245	7,547
Equity-based executive compensation expense	5	31	5	31
Interest accrued	242	474	242	474
Conversion to ordinary shares during the year	(1,387)	(4,807)	(1,387)	(4,807)
Cancelled during year	(519)	-	(519)	-
<b>Balance at end of year</b>	<b>1,586</b>	<b>3,245</b>	<b>1,586</b>	<b>3,245</b>

#### EQUITY AND CAPITAL FUNDS ISSUED

##### Ordinary shares

As at 31 May 2005 there were 27,105,432 fully paid ordinary shares on issue (2004: 219,953,744). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. On 14 December 2004 the Company undertook a one for 10 consolidation of all ordinary shares on issue as at that date, with the result that the number of shares on issue was reduced from 260,378,024 shares to 26,038,036 shares.

##### Share issues

The following share issues took place during the year:

##### Equity placement:

On 6 October 2004, 167,421 shares (pre-consolidation) were issued at \$0.1298 per share to certain senior executives in lieu of 61% of their bonuses for the year ended 31 May 2004. The price at which the shares were issued was the average closing price of the Company's shares on the NZX in the five days following the Company's announcement of results for the year ended 31 May 2004. The amount credited to paid up capital was \$21,731.

On 2 November 2004, 22,012,116 shares (pre-consolidation) were issued to RECT Funds Management at \$0.13 per share, cash. On 30 November 2004, 18,244,743 shares (pre-consolidation) were issued to RECT Funds Management at \$0.13 per share. Total cash of \$5,233,392 was received from the two placements.

##### Conversion of convertible notes:

On 1 February 2005 a series of optional convertible notes converted into 1,067,396 ordinary shares. The amount credited to paid up capital was \$1,066,330. The notes were the final of a series of notes issued as part consideration for the purchase of 100% of the shares in Medical Laboratory Wellington Limited, Wellington Pathology Limited and Nelson Diagnostic Laboratory Limited.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### Optional convertible notes

In accordance with the Company's policy of fair value accounting for its Convertible Note Plan an amount of \$5,405 has been charged to the Statement of Financial Performance as executive remuneration, reflecting the portion of the fair value of the notes at grant date that vested during the year ended 31 May 2005 (2004: \$30,612). The fair value of the notes at grant date was determined by Ferrier Hodgson, Chartered Accountants.

As a result of the above movements the following convertible notes remained on issue as at 31 May 2005:

Convertible notes with a face value of \$1,064,250, issued under the ElderCare New Zealand Limited Convertible Note Plan (2004: \$1,426,750). Convertible notes with a face value of \$362,500 expired without being exercised during the year.

In 2001 the ElderCare New Zealand Limited Convertible Note Plan was established. Under this plan certain senior executives of the Group are offered an opportunity to subscribe for optional convertible notes. The notes vest in the holder over a period of three years and have varying conversion prices. Once vested, the shares can be converted, at the option of the holder, into ordinary shares in the Company. The Company advances the funds required to purchase the notes to the employees and these advances are repayable when the convertible notes convert into ordinary shares or are otherwise redeemed. Both the convertible notes and the financial assistance provided to purchase the convertible notes attract an interest rate at the "prescribed rate of interest" as defined in section OB1 of the Income Tax Act 1994 in force from time to time as notified in the Gazette, with the convertible notes paying an additional rate of 1.5% per annum. The notes are able to convert into ordinary shares at the prices and timeframes outlined on page 71 under the heading "Remuneration of Employees" within the section entitled "Additional Statutory Information". During the year ended 31 May 2005 interest of \$169,714 was accrued to the convertible notes value (2004: \$150,230). The value of the notes in the Statement of Financial Position as at 31 May 2005 also includes \$124,641 reflecting the portion of the fair value of the notes at grant date that has been charged to the Statements of Financial Performance as executive remuneration in the years ended 31 May 2002, 31 May 2003, 31 May 2004 and 31 May 2005 (2004: \$119,236).

Convertible notes with a face value of \$362,500 and accrued interest of \$156,187 expired on 1 April 2005.

Summary of optional convertible notes on issue:

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>EXECUTIVE CONVERTIBLE NOTES</b>				
Balance at beginning of year	1,930	1,749	1,930	1,749
Cancelled during year	(519)	-	(519)	-
Interest accrued during year	170	150	170	150
Fair value charge for notes which have vested	5	31	5	31
<b>Balance at end of year</b>	<b>1,586</b>	<b>1,930</b>	<b>1,586</b>	<b>1,930</b>
<b>NON-EXECUTIVE CONVERTIBLE NOTES</b>				
Balance at beginning of year	1,315	5,798	1,315	5,765
Converted to ordinary shares during year	(1,387)	(4,807)	(1,387)	(4,807)
Interest accrued during year	72	324	72	324
<b>Balance at end of year</b>	<b>-</b>	<b>1,315</b>	<b>-</b>	<b>1,315</b>
<b>Total optional convertible notes</b>	<b>1,586</b>	<b>3,245</b>	<b>1,586</b>	<b>3,245</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 4. Earnings per share

	GROUP	
	2005	2004
Earnings per share - undiluted (cents)	(0.16)	(0.22)
Earnings per share - fully diluted (cents)	(0.15)	(0.19)
Earnings per share from continuing operations - undiluted (cents)	(3.00)	(0.14)
Earnings per share from continuing operations - fully diluted (cents)	(2.80)	(0.12)

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

Fully diluted earnings per share is calculated by dividing net surplus for the year by the weighted average number of shares, options and convertible notes on issue during the year.

### 5. Accumulated losses

NOTE	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Balance at beginning of year	(19,701)	(19,243)	(23,579)	(20,181)
Net (deficit) for the year	(38)	(452)	(4,011)	(3,398)
Transfer of foreign currency translation reserve	-	(6)	-	-
Interest adjustment on cancellation of executive convertible notes	3	-	30	-
<b>Balance at end of year</b>	<b>(19,709)</b>	<b>(19,701)</b>	<b>(27,560)</b>	<b>(23,579)</b>

### 6. Minority interest

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Balance at beginning of year	-	1,235	-	-
Acquired during the year	-	(412)	-	-
Dividends paid to minority interests	-	(839)	-	-
Transferred during the year	-	16	-	-
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 7. Borrowings

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>BORROWINGS DUE WITHIN 12 MONTHS</b>				
Secured bank loans	32,666	-	32,666	-
Unsecured loans	144	-	94	-
	32,810	-	32,760	-
<b>NON-CURRENT BORROWINGS</b>				
Secured bank loans	-	36,400	-	36,400
Unsecured loans	495	-	157	-
	495	36,400	157	36,400
<b>SECURED BANK LOANS</b>				
<b>Principal repayment schedule</b>				
Later than one, not later than two years	-	36,400	-	36,400
	-	36,400	-	36,400
<b>UNSECURED LOANS</b>				
<b>Principal repayment schedule</b>				
Later than one, not later than two years	214	-	95	-
Later than two, not later than five years	281	-	62	-
	495	-	157	-

#### Security

Bank loans are secured by mortgages over specific Group properties and a general security agreement over the Group's assets and undertakings.

Secured bank loans have been treated as repayable within 12 months on the basis that they will be repaid within this timeframe, following settlement of the sale of ElderCare New Zealand Limited which took place on 13th July 2005.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 8. Financial instruments

The Group is subject to a number of financial risks which arise as a result of its debt portfolio and investment activities. The Group's financial instruments comprise convertible notes, cash, receivables and prepayments, investments, bank overdraft, bank loans, finance leases, loans to employees, payables and accruals and deferred income.

#### CREDIT RISK

The Group and holding company are subject to concentrations of credit risk through cash and short term deposits. Credit risk with respect to cash balances and short term deposits is limited due to the high quality institutions being dealt with. Each sector within the Group has a credit policy which restricts exposure to individual trade receivables and the Board of Directors reviews exposure to trade receivables and the level of provisioning for doubtful debts on a regular basis. The directors believe the Group has no significant exposure to credit risk.

#### FAIR VALUE

The Directors have assessed that the carrying value of all financial instruments reported in the statement of financial position represent their fair values as at 31 May 2005 and 31 May 2004.

#### CURRENCY RISK

Fluctuations in foreign exchange rates give rise to market risk that financial instruments may change in value over time. The Group had minimal foreign exchange exposure as at 31 May 2005 or 31 May 2004.

#### INTEREST RATE RISK

Fluctuations in interest rates give rise to market risk that financial instruments may change in value over time.

To ensure that the Group cost of funds is reasonably predictable from year to year, the Board has adopted a policy that floating rate debt (less than 1 year maturity) does not exceed 40% of total projected debt and that fixed rate debt does not exceed 90% of total projected debt. At 31 May 2005, 55% of the Group debt was fixed (31 May 2004: 60%).

The only approved interest rate instruments under the policy are interest rate swaps.

Details of the amounts, maturity profile and fixed rates of interest of the swap agreements entered into by the Group as at 31 May 2005 are as per the following table. Rates exclude the bank's lending margin on the Company's facility.

AMOUNT	COMMENCEMENT DATE	EXPIRY DATE	FIXED RATE
\$1.0m	07 November 2002	07 November 2005	6.20%
\$1.0m	14 November 2002	14 November 2005	6.07%
\$3.0m	14 November 2002	14 November 2007	6.27%
\$2.0m	27 February 2004	28 February 2006	5.95%
\$2.0m	27 February 2004	28 February 2007	6.10%
\$2.0m	27 February 2004	28 February 2006	6.05%
\$3.0m	27 February 2004	28 February 2007	6.20%
\$2.0m	31 August 2004	31 August 2006	6.62%
\$1.0m	31 August 2004	31 March 2008	6.10%
\$2.0m	31 August 2004	31 March 2010	6.23%
\$5.0m	30 August 2004	15 February 2009	6.30%

The cash settlement position of interest rate swaps on a mark to market basis as at 31 May 2005 was an unrecognised profit of \$178,826 (2004: \$140,922 loss).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### REPRICING ANALYSIS

The following tables identify the periods in which interest rates are subject to review on interest bearing financial assets and liabilities, and provides the current weighted average interest rate of each item.

Trade receivables, trade creditors and sundry receivables and creditors have not been included in the table as they are not interest rate sensitive.

GROUP	EFFECTIVE INTEREST RATES		CURRENT		1-2 YEARS		2-5 YEARS		> 5 YEARS		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$000		\$000		\$000		\$000		\$000		\$000	
ASSETS												
Bank	0%	0%	297	490	-	-	-	-	-	-	297	490
Executive convertible note plan	8.20%	7.2%	1,064	1,427	-	-	-	-	-	-	1,064	1,427
<b>Total assets</b>			<b>1,361</b>	<b>1,917</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,361</b>	<b>1,917</b>
LIABILITIES												
Bank overdraft	9.56%	8.37%	709	581	-	-	-	-	-	-	709	581
Borrowings	7.81%	7.71%	33,304	36,400	-	-	-	-	-	-	33,304	36,400
<b>Total liabilities</b>			<b>34,013</b>	<b>36,981</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,013</b>	<b>36,981</b>
HEDGED (UNRECOGNISED)												
Interest rate swaps (face value)	7.70%	7.71%	6,000	16,000	7,000	6,000	11,000	8,000	-	-	24,000	30,000
<b>Total hedged (unrecognised)</b>			<b>6,000</b>	<b>16,000</b>	<b>7,000</b>	<b>6,000</b>	<b>11,000</b>	<b>8,000</b>	<b>-</b>	<b>-</b>	<b>24,000</b>	<b>30,000</b>

COMPANY	EFFECTIVE INTEREST RATES		CURRENT		1-2 YEARS		2-5 YEARS		> 5 YEARS		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$000		\$000		\$000		\$000		\$000		\$000	
ASSETS												
Bank	0%	0%	70	43	-	-	-	-	-	-	70	43
Executive convertible note plan	8.20%	7.2%	1,064	1,427	-	-	-	-	-	-	1,064	1,427
<b>Total assets</b>			<b>1,134</b>	<b>1,470</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,134</b>	<b>1,470</b>
LIABILITIES												
Bank overdraft	9.56%	8.37%	640	570	-	-	-	-	-	-	640	570
Borrowings	7.81%	7.71%	32,917	36,400	-	-	-	-	-	-	32,917	36,400
<b>Total liabilities</b>			<b>33,557</b>	<b>36,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,557</b>	<b>36,970</b>
HEDGED (UNRECOGNISED)												
Interest rate swaps (face value)	7.70%	7.71%	6,000	16,000	7,000	6,000	11,000	8,000	-	-	24,000	30,000
<b>Total hedged (unrecognised)</b>			<b>6,000</b>	<b>16,000</b>	<b>7,000</b>	<b>6,000</b>	<b>11,000</b>	<b>8,000</b>	<b>-</b>	<b>-</b>	<b>24,000</b>	<b>30,000</b>

Interest rates on borrowings include the bank's lending margin.

Interest rate swaps in the current column are considered to be floating for the purposes of the Board's interest rate risk management policy.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 9. Income tax

GROUP	2005 \$000	2004 \$000
Operating (deficit) / surplus before income tax	299	(427)
<b>Permanent and timing differences:</b>		
Non-taxable income	(552)	(124)
Non-deductible expenditure	1,630	1,531
Other permanent differences	-	28
Movement in timing differences	(70)	135
<b>Surplus prior to group loss offsets</b>	<b>1,307</b>	1,143
<b>Group loss offset</b>	<b>(1,236)</b>	(1,143)
<b>Surplus subject to income tax</b>	71	-
Income tax thereon at 33%	23	-
Movement in deferred tax asset	314	(25)
<b>Income tax (expense) / benefit recognised in the Statement of Financial Performance</b>	<b>337</b>	(25)
<b>Comprising:</b>		
Current tax	23	-
Deferred tax	314	(25)
	337	(25)

As at 31 May 2005 income tax losses of nil (2004: \$2,355,627) were available to be carried forward for offset against future year's taxable income.

This position was yet to be confirmed by the Inland Revenue Department and is subject to the requirements of tax legislation being met. Tax gains and losses from the sale of land have not been treated as assessable for tax purposes.

COMPANY	2005 \$000	2004 \$000
Operating (deficit) for the year	(3,676)	(3,576)
<b>Permanent and timing differences:</b>		
Non-taxable income	(148)	-
Non-deductible expenditure	495	217
Movement in timing differences	(72)	101
<b>(Deficit) for the year</b>	<b>(3,401)</b>	(3,258)
<b>Prior year losses utilised</b>	-	-
<b>Taxable income</b>	-	-
Income tax thereon at 33%	-	-
Movement in deferred tax asset	(335)	178
<b>Income tax (expense) / benefit recognised in the Statement of Financial Performance</b>	<b>(335)</b>	178
<b>Comprising:</b>		
Current tax	-	-
Deferred tax	(335)	178
	(335)	178

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

As at 31 May 2005 and prior to any current year loss offset the Company will have income tax losses of \$1,236,148 (2004: \$3,272,193).

Other group companies will utilise at least \$1,236,148 of current year losses incurred during the year.

On the basis that \$1,236,148 of current year losses are transferred to group companies, the Company will have no losses to carry forward to the 2006 income year.

These losses have yet to be confirmed by the Inland Revenue Department and are subject to the requirements of tax legislation being met.

### Imputation balances

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
BALANCES				
<b>Imputation credit account</b>	<b>395</b>	395	-	-
MOVEMENT				
Balance at beginning of year	395	395	-	-
Imputation credits received on dividend paid by subsidiary	-	-	160	-
Tax payments	-	413	-	-
Imputation credits attached to dividends paid to minority shareholders	-	(413)	-	-
<b>Balance at end of year</b>	<b>395</b>	395	160	-

### Deferred tax asset

GROUP	2005 \$000	2004 \$000
Opening balance	364	389
On surplus for year	(314)	(25)
<b>Closing balance</b>	<b>50</b>	364

On the basis that the group is virtually certain of utilising the deferred tax asset, it continues to be recognised in the financial statements.

The deferred tax asset represents non-quarantined losses, closing balances in provisions and differences between tax and accounting fixed asset book values.

The tax effect of quarantined losses which have not been recognised is nil (2004: \$369,428).

COMPANY	2005 \$000	2004 \$000
Opening balance	393	215
Movement in deferred tax asset	(335)	178
<b>Closing balance</b>	<b>58</b>	393

The deferred tax asset represents non-quarantined losses, closing balances in provisions and differences between tax and accounting fixed asset book values.

The tax effect of quarantined losses that have not been recognised is nil (2004: \$369,428).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 10. Property, plant and equipment

GROUP	COST \$000	2005 ACC DEP \$000	BOOK VALUE \$000	COST \$000	2004 ACC DEP \$000	BOOK VALUE \$000
FREEHOLD LAND						
At cost	10,139	-	10,139	9,990	-	9,990
<b>Total freehold land</b>	<b>10,139</b>	<b>-</b>	<b>10,139</b>	<b>9,990</b>	<b>-</b>	<b>9,990</b>
BUILDINGS						
At cost	42,796	4,713	38,083	41,821	4,158	37,663
<b>Total buildings</b>	<b>42,796</b>	<b>4,713</b>	<b>38,083</b>	<b>41,821</b>	<b>4,158</b>	<b>37,663</b>
LEASEHOLD IMPROVEMENTS						
At cost	1,688	1,373	315	1,602	1,315	287
<b>Total leasehold improvements</b>	<b>1,688</b>	<b>1,373</b>	<b>315</b>	<b>1,602</b>	<b>1,315</b>	<b>287</b>
PLANT AND EQUIPMENT						
At cost	18,997	12,398	6,599	17,052	9,962	7,090
Capitalised finance leases	-	-	-	19	11	8
<b>Total plant and equipment</b>	<b>18,997</b>	<b>12,398</b>	<b>6,599</b>	<b>17,071</b>	<b>9,973</b>	<b>7,098</b>
MOTOR VEHICLES						
At cost	1,252	655	597	1,314	640	674
<b>Total motor vehicles</b>	<b>1,252</b>	<b>655</b>	<b>597</b>	<b>1,314</b>	<b>640</b>	<b>674</b>
CAPITAL WORK IN PROGRESS						
At cost	768	-	768	98	-	98
<b>Total capital work in progress</b>	<b>768</b>	<b>-</b>	<b>768</b>	<b>98</b>	<b>-</b>	<b>98</b>
<b>Total property, plant and equipment</b>	<b>75,640</b>	<b>19,139</b>	<b>56,501</b>	<b>71,896</b>	<b>16,086</b>	<b>55,810</b>
COMPANY	COST \$000	2005 ACC DEP \$000	BOOK VALUE \$000	COST \$000	2004 ACC DEP \$000	BOOK VALUE \$000
Plant and equipment at cost	232	82	150	234	36	198
<b>Total property, plant &amp; equipment</b>	<b>232</b>	<b>82</b>	<b>150</b>	<b>234</b>	<b>36</b>	<b>198</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 11. Commitments and contingencies

The Group leases premises, motor vehicles and plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of motor vehicles or plant and equipment held under operating leases.

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

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
OPERATING LEASES				
<b>Non-cancellable operating lease commitments:</b>				
Payable within one year	1,900	1,851	281	261
Payable in one to two years	1,177	1,519	171	294
Payable in two to five years	1,356	1,477	69	282
Payable beyond five years	510	141	-	-
	4,943	4,988	521	837
<b>Analysis of total operating lease commitments:</b>				
Property	4,085	3,626	420	496
Motor vehicles	357	645	74	260
Plant and equipment	501	717	27	81
	4,943	4,988	521	837
CAPITAL EXPENDITURE				
Amounts committed to capital expenditure	1,915	719	-	-
	1,915	719	-	-

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 12. Investments in subsidiaries

The Company's investments in subsidiaries comprises shares at cost. Significant subsidiaries comprise:

NAME OF ENTITY	PRINCIPAL ACTIVITIES	INTEREST HELD BY GROUP	
		2005	2004
ElderCare New Zealand Limited <sup>(1)</sup>	Aged Care	100%	100%
Medical Laboratory Wellington Limited	Pathology	100%	100%
Wellington Pathology Limited <sup>(2)</sup>	Pathology	100%	100%
Ranworth Healthcare Limited	Traumatic brain injury rehabilitation care provider	100%	100%
New Zealand Dental Group Limited <sup>(3)</sup>	Dental	100%	100%
Abano Nominees Limited (formerly ElderCare Nominees Ltd)	Not trading	100%	100%
<b><sup>(1)</sup> Subsidiaries of ElderCare New Zealand Limited (100% unless otherwise specified)</b>			
Care New Zealand Limited	Aged care provider		
ElderCare Central Limited	Aged care provider		
ElderCare Contracts Limited	Not trading		
ElderCare St Lukes Limited	Not trading		
Gracelands Retirement Village (1999) Limited	Retirement village		
Greenvalley Services Limited	Aged care provider		
Regents Park Village Limited	Not trading		
<b>Subsidiaries of ElderCare Central Limited (100% owned)</b>			
St Johns Wood Trust Lifecare Limited	Assisted living facility		
Molly Ryan Trust Lifecare Limited	Not trading		
Te Mata Residential Estate Limited	Not trading		
<b><sup>(2)</sup> Subsidiary of Wellington Pathology Limited (100% owned)</b>			
Nelson Diagnostic Laboratory Limited	Pathology		
<b><sup>(3)</sup> Subsidiary of New Zealand Dental Group Limited (100% owned)</b>			
Lumino Dental Limited (formerly Geddes Dental Group NZ Ltd)	Dental		

All subsidiaries have a balance date of 31 May.

All entities are incorporated in New Zealand.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### ACQUISITION OF BUSINESSES

During the year the Company acquired the businesses of Auckland Dental Group, David Osie Dental and Dargaville Dental for total cash consideration of \$1,899,973, including costs of acquisition.

The operating results of these acquisitions have been included in the statement of financial performance of the Group from 30 November 2004 (Auckland Dental Group), 1 December 2004 (David Osie Dental) and 1 March 2004 (Dargaville Dental).

#### Summary of the effect of the acquisitions:

	GROUP 2005 \$000	COMPANY 2005 \$000
<b>Fair value of net assets acquired:</b>		
Current assets	90	-
Current liabilities	(40)	-
Long-term liabilities	(712)	-
Property, plant & equipment	252	-
Goodwill on acquisition	2,310	-
<b>Consideration paid</b>	<b>1,900</b>	<b>-</b>
Deferred acquisition consideration	312	-
<b>Total consideration</b>	<b>2,212</b>	<b>-</b>

During the prior year the Group acquired the minority shareholding in Ranworth Healthcare Limited for total cash consideration of \$3,348,033 and the businesses of Burtons Healthcare and Health Partners for total cash consideration of \$1,580,534. The operating results of these acquisitions have been included in the statement of financial performance of the Group and Company from 1 June 2003 (Ranworth) and 1 August 2003 (Burtons and Health Partners).

#### Summary of the effect of prior year's acquisitions:

	GROUP 2004 \$000	COMPANY 2004 \$000
<b>Fair value of net assets acquired:</b>		
Current assets	14	14
Current liabilities	(55)	(55)
Long-term liabilities	(3)	(3)
Property, plant & equipment	492	79
Goodwill on acquisition	4,481	1,546
<b>Consideration paid</b>	<b>4,929</b>	<b>1,581</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 13. Investment in associate

The Company's investment in associate comprises:

NAME OF ENTITY	PRINCIPAL ACTIVITIES	INTEREST HELD BY GROUP AND COMPANY	
		2005	2004
Ascot Radiology Limited	Radiology Services	40%	0%

Ascot Radiology Limited has a balance date of 31 March.

#### ACQUISITION OF ASSOCIATE

During the year the Company acquired a minority shareholding in Ascot Radiology Limited for total cash consideration of \$1,111,174, including costs of acquisition.

The operating results of this acquisition has been included in the statement of financial performance of the Group from 1 February 2005.

	GROUP	
	2005 \$000	2004 \$000
<b>Results of associate</b>		
Share of surpluses before income tax	160	-
Income tax	(52)	-
Amortisation of goodwill	(21)	-
<b>Total recognised revenues and expenses</b>	<b>87</b>	<b>-</b>

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Interest in associate</b>				
Shares at cost	-	-	1,111	-
<b>CARRYING VALUE</b>				
At beginning of year	-	-	-	-
Associate acquired during the year	1,111	-	-	-
Share of total recognised revenues and expenses	87	-	-	-
Balance at end of year	1,198	-	-	-
	<b>1,198</b>	<b>-</b>	<b>1,111</b>	<b>-</b>
Included within the above carrying value is:				
Goodwill (gross)	1,280	-	-	-
Accumulated amortisation	(21)	-	-	-
Unamortised balance of goodwill	1,259	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 14. Intangible assets

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Goodwill (gross) at beginning of year	20,709	16,128	1,546	-
Accumulated amortisation at beginning of year	(2,552)	(1,530)	(66)	-
<b>Unamortised balance at beginning of year</b>	<b>18,157</b>	<b>14,598</b>	<b>1,480</b>	<b>-</b>
Acquired during the year	2,423	4,481	-	1,546
Amortised during the year	(1,075)	(1,022)	(77)	(66)
Transferred during the year	-	100	-	-
<b>Unamortised balance at end of year</b>	<b>19,505</b>	<b>18,157</b>	<b>1,403</b>	<b>1,480</b>
Comprising:				
Goodwill (gross)	23,132	20,709	1,546	1,546
Accumulated amortisation	(3,627)	(2,552)	(143)	(66)
	19,505	18,157	1,403	1,480

An amortisation period of 20 years has been adopted in respect of all goodwill.

### 15. Receivables and prepayments

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>CURRENT</b>				
Accounts receivable	4,965	5,771	309	295
Prepayments	1,213	506	10	108
Income tax paid in advance	414	414	-	-
Other receivables	512	295	32	135
Executive convertible note plan	1,389	1,680	1,389	1,680
Prepaid rebanking fees*	-	131	-	131
<b>Total receivables and prepayments - Current</b>	<b>8,493</b>	<b>8,797</b>	<b>1,740</b>	<b>2,349</b>
<b>NON-CURRENT</b>				
Loan to associate company	283	60	283	60
<b>Total receivables and prepayments - Non-Current</b>	<b>283</b>	<b>60</b>	<b>283</b>	<b>60</b>

\*These relate to the cost of rebanking, the benefit of which accrues to the Group over three years from 2002.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

### 16. Payables and accruals

	GROUP		COMPANY	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
CURRENT				
Accounts payable	2,451	1,854	273	56
Employee entitlements	2,981	2,461	184	187
Deferred income	-	103	-	-
Directors' fees	38	45	38	45
Sundry creditors and accruals	1,402	1,576	157	389
Goods & Services Tax	266	351	23	21
ACC levies	233	268	16	24
<b>Total payables and accruals - Current</b>	<b>7,371</b>	<b>6,658</b>	<b>691</b>	<b>722</b>

### 17. Related party transactions and balances

COMPANY	TRANSACTION		BALANCE OUTSTANDING	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
			DEBIT / (CREDIT)	
TRANSACTIONS BETWEEN THE COMPANY AND RELATED PARTIES				
<b>Transactions within the Group</b>				
Net cash advances, expenditure recharges and management fees	(10,568)	(1,156)	31,348	41,916
<b>Transactions with Cullen Investments Limited</b>				
Reimbursement for expenditure incurred on behalf of the Company	9	20	-	-
Repayment of convertible note principal & interest	-	3,527	-	-
Interest accrued on convertible note	-	172	-	-
<b>Transactions with gen-i Limited</b>				
Purchase of I.T. equipment and consumables	7	3	-	-

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 May 2005

SUBSIDIARY COMPANIES	TRANSACTION		BALANCE OUTSTANDING	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
			DEBIT / (CREDIT)	
TRANSACTIONS BETWEEN SUBSIDIARY COMPANIES AND RELATED PARTIES				
<b>Transactions with gen-i Limited</b>				
Purchase of I.T. equipment and consumables	6	60	(18)	3
<b>Transactions with Lab Solutions Limited</b>				
Cash advances and expenditure recharges	(231)	98	-	231
<b>Transactions with PACK Limited</b>				
Rental on property	29	26	-	-
<b>Transactions with Software of Excellence Limited</b>				
Purchase of dental software and I.T. consulting services	112	230	-	-
<b>Transactions with OneSource Limited</b>				
Purchase and lease of office equipment	26	-	-	-

Cullen Investments Limited is related through common control and directors.

gen-i Limited was related through common control and directors until July 2004.

Software of Excellence Limited is related through a common director.

No related party debts have been written off or forgiven during the year.

### 18. Subsequent events

On 13th June, the Company announced the potential merger of Medical Laboratory Wellington Limited and Sonic Healthcare Limited's Hutt Valley-based Valley Diagnostic. The proposed merger is subject to due diligence, with a final decision to be made later in 2005.

On 1st July, Lumino Dental Limited acquired two dental practices, one in Hamilton and one in Te Awamutu.

On 6th July, at a special meeting of shareholders, the sale of ElderCare New Zealand Limited was approved by shareholders. The sale transaction was settled on 13th July 2005, for total cash consideration of \$63.5 million.

On 6th July, the Company announced the signing of a conditional agreement for the purchase of a 70% shareholding in Bay Audiology Limited, for \$21 million. The agreement is conditional on the sale of ElderCare New Zealand Limited and approval by shareholders, to be sought at the Company's annual meeting in September 2005.

On 22nd July, the Company announced its intention to return \$10 million to shareholders by way of an off-market, voluntary, pro rata, one for six share buyback.