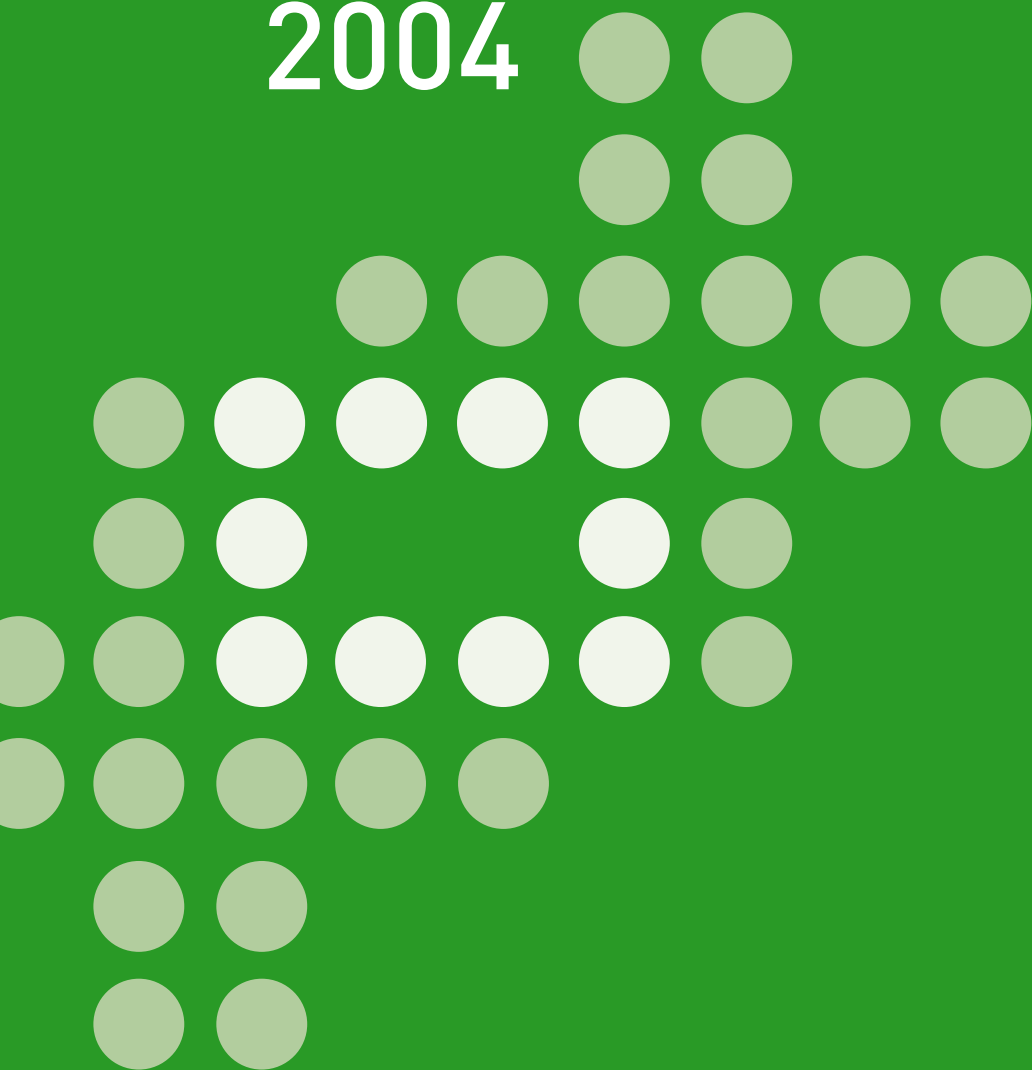


# Abano Healthcare Annual Report

2004

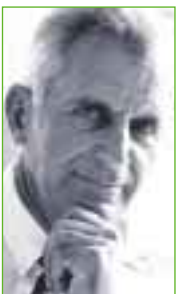
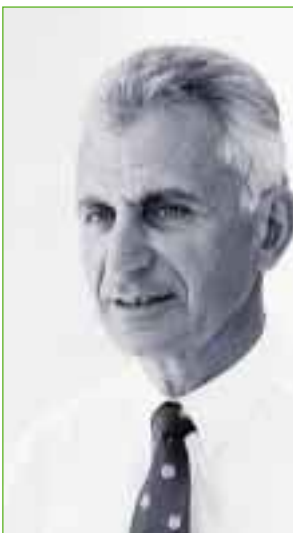


# CHAIRMAN'S REPORT

## Year in review

The focus for Abano Healthcare Group in the past year has been on consolidating and strengthening the infrastructure of individual businesses and the Group. The board and senior management have identified key areas for continued growth, with an emphasis on improving the operational performance of existing businesses to establish strong foundations from which to build and expand the Company.

Significant investment in management processes, technology and facilities across the Group has been made in the period under review. These investments were implemented to allow for future savings, through back office synergies, as each sector moves ahead through the new financial year.



## OUR STRATEGY

In 2000, we announced a strategic move away from a sole focus on aged care, with its capital intensive requirements and property management nature, into the wider healthcare and medical services market.

Back then, as now, we believed the future opportunity for our Company lay in bringing together core businesses from within the fragmented healthcare market and providing disciplined management processes and back office synergies to add value and maximise returns.

That strategy is still valid and, while our performance in the current year was below expectations, our business structure is now established and we have created a presence in a number of core medical and healthcare sectors, that we believe will provide attractive returns in the years ahead.

2003/2004 has been a challenging year for the Company and we have consolidated operations to meet the changing needs of our public sector contracts. We have invested significantly in our infrastructure, both at Group and sector level, and are now in a position to realise synergies and cost savings as we continue to grow through both expansion and acquisition.

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, where the benefits of our Group infrastructure can help to decrease costs, improve operational processes and drive increased returns and bottom line results.

## FINANCIAL PERFORMANCE

In the financial year ended 31 May 2004, Abano Healthcare reported increased Group revenues, but a drop in the consolidated EBITDA performance, following a decreased performance in two sectors.

The cost of servicing the healthcare and medical market has increased significantly in the past year, due to higher wage costs, changes in legislation and Government contracts and the increasing compliance costs of regulation in the Aged Care industry.

These changes have had a significant impact on all operating sectors within the Group, and disappointingly, a Net Loss After Tax of \$0.45 million was reported, including a \$0.33 million write down following the closure of the Australian dental operation. This compares to a posted Net Profit After Tax of \$2.0 million in the previous year, which included one-off gains of \$1.3 million.

## CHAIRMAN'S REPORT CONT

### ACQUISITIONS

Our acquisition investments in the past three years have enhanced shareholder wealth and added considerable value to the original Aged Care business. The average return on invested capital at operational EBITDA (before corporate costs) for each new sector ranges from nine percent to 23 percent.

The Company's acquisition strategy has been and remains, to identify businesses where the Group can add value by focusing on disciplined management processes and synergies; and by investing in sectors where the financial position of the Group can be improved and shareholder value enhanced. Each potential business must meet set financial criteria and the sector must show the potential for future growth, both in value and sustainability.

### DIVIDEND

The board reviews the dividend policy each year and the directors recommend that no dividend be paid for the current financial year, as the Group continues to invest in growth opportunities.

### OUR PEOPLE

Our annual report provides an opportunity for us to publicly thank all our staff, whose commitment, expertise and enthusiasm lead to an improvement in health and quality of life for the thousands of people we diagnose, care for and treat every day of the year.

This has been a challenging year across all sectors for our multi-discipline clinical teams who have had to deal with much older and frailer clients in Aged Care; increasing demands with more stringent outcomes for our Rehabilitation services; increasing community pressures to adapt diagnostic services to the changing needs of the new PHOs and DHBs; and new premises, extended hours and more flexible services in the Dental sector.

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

### OUTLOOK

Based on the consolidation and investment carried out in the past year, we anticipate improved progress will be made in the 2004/05 financial year.

Forecasts show a rapidly growing population of over 65 year olds, who, in turn, will drive increased demand for healthcare and medical services. 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 most appropriate service offer for the local community. Our close working relationships with these funding bodies allows us

to identify opportunities to add value and improve services at a micro level, resulting in improved quality and a better standard of care for patients and clients.

Your board remains committed to the established strategy of the Group and to building on the successful businesses which are already a part of our Company. We look forward to a return to bottom line profitability and bringing you a year of positive results and growing presence in the healthcare and medical services market.

A handwritten signature in black ink, appearing to read "Jim Syme". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

**Jim Syme**  
**CHAIRMAN**