

ABANO AGED CARE

THE BUSINESS

- Abano Aged Care operated one brand in the aged care market - ElderCare New Zealand
- ElderCare operates 13 residential facilities in New Zealand, consisting of 743 beds, 69 independent retirement villas and 35 serviced apartments
- The business employs 743 staff

THE MARKET

- There are 30,459 licensed beds distributed between 853 facilities in NZ
- ElderCare New Zealand has 2.4 percent of the market
- Most facilities are privately owned or run by non-profit trusts, with three publicly listed companies holding six percent of the market
- The total market size for age related disability support services is \$843 million per annum

THE FACILITIES

| FACILITY | LOCATION |
|-----------------------------|-----------------------|
| Cargill Home | Invercargill |
| Eldon Lodge | Paraparaumu |
| Elmswood Lodge | Tauranga |
| Gracelands Nursing Complex | Hastings |
| Greenvalley Lodge | Glenfield, Auckland |
| Lexham Gardens | Sandringham, Auckland |
| Otumarama Home and Hospital | Nelson |
| Riverview Lodge | New Plymouth |
| St Johns Wood Trust | Taupo |
| Takanini Lodge | Takanini, Auckland |
| Te Mana Home and Hospital | Birkenhead, Auckland |
| West Harbour Lodge | Westgate, Auckland |
| Whitianga Continuing Care | Whitianga |

OPERATIONAL PERFORMANCE

Revenues grew 9.5 percent to \$26.4 million, with an Op-EBITDA contribution of \$4.5 million, both up on last year. The results included a partial benefit from the upgrade at Eldon Lodge, which was completed during the year and the full year benefits of the room extensions at Takanini and Whitianga.

| \$ MILLION | 2000/2001 | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 |
|--------------|-----------|-----------|-----------|-----------|-----------|
| CORE REVENUE | 21.6 | 22.8 | 23.3 | 24.1 | 26.4 |
| OP-EBITDA | 3.8 | 4.0 | 4.7 | 3.7 | 4.5 |



ELDERCARE

| OBJECTIVES FOR 2004/2005 | RESULTS |
|---|---|
| Upgrade Eldon Lodge Rest Home and Dementia Facility | Upgrade completed in June 2005 |
| Launch a resident wellness program | The ElderCare LIFE program was successfully launched |
| Commence upgrade of Gracelands Nursing Home | The project was commenced in January 2005 |
| Continue to expand number of beds across the group | Added new beds at Eldon Lodge, Gracelands and St Johns Wood |

Key Activities for the Year

- A full refurbishment and upgrade of Eldon Lodge, including a remodel of the dementia wing was completed at a cost of \$1.1 million. The facility now offers 93 resthome beds and 23 dementia beds, with a positive impact for ElderCare expected from 2005/06.
- Three new apartments and one new resthome room were added to St Johns Wood in Taupo. These were completed in May 2005 at a cost of \$320,000.
- The redevelopment of the Gracelands Nursing Complex started in January 2005 and will take 18 months to complete. It involves the building of 14 new care beds and the complete renovation of the old rest home facility, at a completed cost of \$2.2 million.
- Management continued the accreditation programme, and all facilities, including the support office, were awarded ISO 9001-2000 certification for three years, by BVQI, an accredited auditor.
- The personal wellbeing programme for residents, LIFE, was launched across all facilities. This programme builds on the successful Promoting Independent Living study carried out over the past two years, and has already proven very popular with residents.
- The most significant event for ElderCare during the year, was the announcement of the sale of the business to The Macquarie Group for NZ \$63.5 million. This sale was approved by shareholders and settled in July 2005.

Income

Abano Aged Care derived 51 percent of its income from Government sources and 49 percent from private payment. Local DHBs are responsible for the funding of aged care. Residential care fees, excluding retirement village fees, are derived as follows:

| LEVEL OF CARE | WEEKLY FEE DHB | WEEKLY FEE PRIVATE |
|---------------|-------------------|--------------------|
| Hospital | \$1,044 - \$1,106 | N/A |
| Rest home | \$616 - \$674 | \$624 - \$686 |
| Dementia | \$768 - \$787 | N/A |

Market Overview

The aged care sector needs significant capital inputs to operate, maintain, acquire or develop new facilities. Strong growth in client numbers is forecast for the next twenty years with an aging population and a move to higher dependency care such as hospitals. In parallel, the age and dependency of residents is increasing each year which means that their average length of stay is decreasing.

There is a higher need for skilled and qualified staff with significant competition emerging from the public sector and a growing cost base. Greater regulation means that compliance costs are escalating and robust quality systems are mandatory.

Finally, the sector has an increasing dependency on Government funding as asset testing is progressively removed and there are limited opportunities to advance private funding alternatives to increase prices and margins.

Outlook

Following a careful and considered review, the board of Abano made an announcement in May 2005 that a decision had been reached to sell ElderCare to The Macquarie Group. The board believes that while there is increasing demand, the future of the aged care industry in New Zealand lies with substantial organisations who have a lower cost of capital and who are able to spread administrative costs and achieve the required economies of scale.

ElderCare has been acquired by The Macquarie Group to facilitate its entry into the New Zealand aged care market, and it will continue to provide the quality aged care services for which it is known. From mid-July 2005, Abano no longer operates in the aged care market.

Abano recognises that ElderCare was and continues to be an extremely well run and operated business that is an industry leader in New Zealand. We extend our thanks to the staff and management of ElderCare for their loyalty and support over the last six years and we wish them every success in their future with The Macquarie Group.

ABANO DENTAL

THE BUSINESS

- Abano Dental launched the Lumino brand in May 2005, to replace the Geddes Dental brand acquired in November 2002
- Abano Dental also owns Auckland Dental Group which operates in association with Lumino
- Lumino has refined the focus of its practices to private paying patients
- Lumino is Australasia's largest single ownership dental group and employs over 100 staff in 17 branches and mobile units

THE MARKET

- The New Zealand dental market is worth approximately \$360 million, including the Government's school dental service and specialist dentistry
- There are approximately 1,700 registered dentists in New Zealand, with 540 dentists in the Auckland area
- Lumino holds approximately four percent of the total New Zealand market across its current business portfolio

THE FACILITIES

| BRAND | BRANCH |
|---|--------------------------|
| Lumino | Takapuna |
| Lumino | New Lynn |
| Lumino | Newmarket |
| Lumino | Panmure |
| Lumino | Manukau |
| Lumino | Red Beach |
| Lumino | Papakura |
| Lumino | Henderson |
| Lumino | Mt Roskill |
| Lumino | Howick (closed April 05) |
| Lumino | Mobile 1 |
| Lumino | Mobile 2 |
| Lumino | Mobile 3 |
| Lumino | University of Auckland |
| Lumino | Victoria Avenue, Remuera |
| Lumino | Dargaville |
| Auckland Dental Group in association with Lumino | Remuera Road |

OPERATIONAL PERFORMANCE

Dental revenues were \$9.4 million, up 13 percent over the previous year, with an Op-EBITDA slightly higher than the year before, at \$0.3 million. Returns for the year were modest due to a significant investment in new operational software, as announced last year, and the continued rollout of the growth strategy.

| \$ MILLION | 2000/2001 | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 |
|--------------|-----------|-----------|-----------|-----------|-----------|
| CORE REVENUE | N/A | N/A | 4.5 | 8.3 | 9.4 |
| OP-EBITDA | N/A | N/A | (0.2) | 0.1 | 0.3 |



AUCKLAND
DENTAL
GROUP

LUMINO CARE DENTAL / AUCKLAND DENTAL GROUP

| OBJECTIVES FOR 2004/2005 | RESULTS |
|---|---|
| Acquire four practices with revenues of \$1.6m | Acquired three practices with revenues of \$3.1m |
| Raise production and performance from existing practices by 5.5 percent | Revenue from existing practices increased by 6 percent |
| Optimise new IT systems and maximise reporting capabilities | New systems implemented and the roll out extended with additional management information improved |

Key Activities for the Year

- Abano's dental strategy is focused on growth, with a number of new acquisitions during the second half of the financial year, including acquisition of Victoria Ave Dental in December 2004, and The Auckland Dental Group and Dargaville Dental in February 2005.
- A new dental network, Lumino, was launched in May 2005 to replace the Geddes Dental Group acquired by Abano in November 2002.
- Under the new network, the focus for Abano Dental's businesses has changed from value for money dentistry to comprehensive full-treatment dental services. In conjunction with this, management also made the decision to discontinue providing services for Community Services cardholders.
- Frank Janssen was appointed as general manager for Abano Dental in August 2004, and is responsible for the development of the Lumino network and the acquisition of new practices.
- Two further acquisitions have been announced since year-end, in Hamilton and Te Awamutu, and both were settled on 1 July 2005.

Income

In the 2005 financial year, 80 percent of fee income was derived from private fee-paying patients, and 20 percent from DHB contracts for adolescent and adult dental services.

In the coming financial year, Abano Dental is forecasting private fee revenue to rise to 90 percent and the adolescent contracts to represent the remaining 10 percent.

This change reflects the business' objective to attract more private paying patients. By improving the quality of service and the options for treatment available, higher value will be generated from each patient.

Market Overview

The dental sector primarily comprises individual and small group dental practices, owned and managed by practising dentists. The cost of keeping up with modern technology is rising, competition is increasing, and more time is required for administration rather than revenue generating dental treatments. Many dentists are recognising that dentistry is more efficient, cost effective and rewarding if delivered within a well managed group structure.

Lumino offers dentists and support staff working environments and career opportunities that are simply not possible in small, fragmented, traditional practices. The combination of superior business systems, group marketing initiatives, and professional standards coupled with exciting career pathways and outstanding service to patients make Lumino unique in today's rapidly changing dental practice environment.

Outlook

At Lumino, significant advantages of size and operational effectiveness over other dental practices are offered. The business has developed new brand and marketing strategies that target the higher-income segments of the population-base, and are the only dental brand to reward its patients with New Zealand's most high profile and successful loyalty programme – Fly Buys.

The Lumino Dental strategy has a strong focus on patient care, and we are committed to growing Lumino's presence in the New Zealand market. We will continue to respond to changing demand in the marketplace, and to develop the business according to global best practice.

We are focused on growth through acquisition of existing dental practices and the establishment of new practices in areas where we identify a demand for quality dentistry. We will also continue to increase revenues from existing facilities through continuing education and the addition of Prime Practice management training. Our goal for the next two years is to build a nationwide network of quality dental practices operating under the Lumino brand.

Contributions from Abano Dental in the next year are expected to improve as a result of our efforts to improve management and clinical practice performance, together with the incremental profits from acquisitions.

ABANO REHABILITATION

THE BUSINESS

- Abano Rehabilitation is comprised of three brands and offers a range of residential and community based rehabilitation services
- Abano Rehabilitation specialises in providing rehabilitation and treatment of clients with brain injury or spinal injury, enabling people to become as independent as possible, as well as offering a wider range of vocational and other services
- Ranworth provides residential rehabilitation and supported accommodation, Burtons provides clinical interventions to community-based clients at its offices or in homes, schools or workplaces and Health Partners provides assessment services which enable funders to determine appropriate rehabilitation programmes for their clients
- Ranworth operates 10 residential facilities and Burtons/Health Partners operate from 8 facilities
- There is a growing emphasis on workplace assessments and on rehabilitation and return-to-work programmes for clients with mild injuries
- More than 195 staff are employed across ten residential facilities centres and eight community centres within New Zealand

THE MARKET

- Assessment and treatment of brain and spinal injuries is a specialist area
- In the year ending 30 June 2004, ACC spent \$128 million on serious injury claims
- Of these, 48 percent had brain injuries (from mild to serious) and 45 percent had spinal injuries (including incomplete spinal injuries)

OUR FACILITIES

| BRAND | RESIDENTIAL/ COMMUNITY | LOCATION |
|--------------------------|---------------------------|--|
| Ranworth | Residential | Whangarei, Auckland, Hamilton, Gisborne, Hastings, Palmerston North |
| Burttons/Health Partners | Community | Whangarei, Auckland, Hamilton, Tauranga, Hastings, Gisborne, Palmerston North, Dunedin |

OPERATIONAL PERFORMANCE

Revenue for the financial year was down 14.6 percent to \$12.3 million, and Op-EBITDA was down to \$0.8 million. This was due, in part, to difficult contract negotiations with ACC which have now settled.

| \$ MILLION | 2000/2001 | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 |
|--------------|-----------|-----------|-----------|-----------|-----------|
| CORE REVENUE | 10.8 | 10.7 | 12.4 | 14.4 | 12.3 |
| OP-EBITDA | 0.7 | 0.7 | 2.1 | 1.5 | 0.8 |

**RANWORTH HEALTHCARE
BURTONS HEALTHCARE
HEALTH PARTNERS**



| OBJECTIVES FOR 2004/2005 | RESULTS |
|---|--|
| Focus on improving service delivery, gaining synergies across the three brands and improvement of internal efficiencies | Staff costs as a percentage of revenue constant in Ranworth and decreased in Burtons and Health Partners |
| Increase residential occupancy and attract referrals of high-revenue clients | Occupancy increased to 96 percent by year end |
| Maintain regulatory compliance and quality certification | All external audits passed successfully |
| Differentiate services through contract compliance and innovative service provision to funders | Abano Rehabilitation seen by funders as responsive, innovative, and the provider of choice |
| Stabilise and improve contract prices for all levels of ACC contracts | Progress was made, however, ACC contract changes meant that significant changes to service delivery were necessary |

Key Activities for the Year

- New software was sequentially implemented, enabling managers to monitor staff and branch performance.
- Burtons and Health Partners brands were refreshed with development of new logos and promotional material, to improve recognition and brand presence and aid with increased referrals to these brands.
- A new contract covering complex pain assessment was successfully trialled in Tauranga this year.
- Continued to develop the ongoing relationship with Workbridge, resulting in increased vocational contract work in several regions. Since year end, the number of referrals from WINZ in the South Island has been building with a new contract now in place.
- Following Karen Schneller's resignation as general manager, Robin Cooper was appointed as acting general manager.
- Modifications to the services offered to clients were made to match the reduction in contract fees by ACC. Discussions and negotiations with ACC have taken place and a restructure of the business has been underway to meet requirements.

Income

Abano Rehabilitation derives approximately 83 percent of its funding from ACC with up to 14 percent from MOH, and a small percentage from private referrals and other agencies.

Market Overview

Abano Rehabilitation primarily provides assessment and rehabilitation for people suffering serious brain injury or spinal injury. In addition, the sector now has a number of contracts to provide other services and treatment in areas that have been developed and implemented based on the skill and expertise of key staff.

Abano Rehabilitation is the only national service provider, and holds residential as well as community assessment and rehabilitation contracts. It is also one of the largest employers of occupational therapists outside the public health sector and has the largest multidisciplinary team of permanent employees.

The national market is generally fragmented, outside Abano Rehabilitation, although some providers are moving to open services into new areas. There is continued downward pressure on prices from ACC and MOH and a flexible, innovative approach to service provision is important.

Outlook

ACC has reviewed and renegotiated its existing contracts over the past two years, with changed service and contract parameters and guidelines. Abano Rehabilitation is reacting to this changing contract environment with new and extended services and improved management systems to ensure it remains competitive and an attractive supplier choice for ACC funders.

ACC has indicated its continuing support for Abano Rehabilitation's services and we remain committed to this sector. The immediate future will remain difficult with soft operational results as the new service delivery structures are put in place. We are, however, confident for an improvement in operational profitability and return on investment over the next twelve months. There is continued strong and increasing demand for rehabilitation services, particularly for early intervention and effective return to work programmes. With its restructured range of services and highly experienced clinical teams, Abano Rehabilitation is well placed to meet ACC's needs.

ABANO DIAGNOSTICS

THE BUSINESS

- Abano Diagnostics operates in two sectors – pathology and radiology
- There are two pathology businesses - Medical Laboratory Wellington and Nelson Diagnostic Laboratory, which were acquired by Abano Healthcare in January 2002
- Both of these businesses provide community laboratory services, of which 94 percent of funding is through DHBs and six percent by private payment
- These pathology businesses employ 209 staff and offer a 24 hour, 7 day service, testing over 2000 patients every day; and analysing up to 3,000 environmental samples each month
- Abano also owns 40 percent of Ascot Radiology, which offers a comprehensive X-ray and scanning service
- Ascot holds approximately 12 percent of the Auckland market
- Ascot operates from one site in Greenlane and has approximately 40 staff, providing radiology services to over 20,000 patients per year

THE MARKET

- The total community pathology laboratory market in New Zealand is worth \$190 million per annum and Abano Diagnostics holds 9.5 percent of the market
- Community laboratories provide specialist pathology services for patients referred by health professionals
- The total private radiology market in Auckland is worth \$60 million per annum and Ascot Radiology holds 10 percent of the market – nationally, the radiology market is worth an estimated \$150 million
- More than eight privately owned businesses and eight hospitals offer radiology services in Auckland

OUR BUSINESSES

| MARKET | BUSINESS |
|-----------------------|-------------------------------|
| Pathology | Medical Laboratory Wellington |
| Environmental testing | Biostandards Wellington |
| Pathology | Nelson Diagnostic Laboratory |
| Radiology | Ascot Radiology, Auckland |

OPERATIONAL PERFORMANCE

The diagnostics sector returned revenues and Op-EBITDA in line with the previous year. Revenue of \$18.5 million and Op-EBITDA of \$2.0 million included a four month contribution from the 40 percent ownership of Ascot Radiology.

| \$ MILLION | 2000/2001 | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 |
|--------------|-----------|-----------|-----------|-----------|-----------|
| CORE REVENUE | N/A | 6.1 | 17.9 | 18.0 | 18.5 |
| OP-EBITDA | N/A | 0.8 | 1.9 | 1.8 | 2.0 |

MEDICAL LABORATORY WELLINGTON NELSON DIAGNOSTIC LABORATORY



| OBJECTIVES FOR 2004/2005 | RESULTS |
|---|--|
| Achieve increased DHB funding to reflect referrer demand | Increased revenue from increases in privately and publicly funded testing |
| Achieve business efficiencies | Costs contained |
| Maintain close relationships with DHB funders in both operating regions | Stronger relationships following interactive consultation processes on the future funding for pathology services |
| Increase communication and educational activities for health professionals using our services | Regular clinical newsletters issued with very favourable feedback and updated practice support material Facilitated appropriate flow of information to referrers in regard to proposed changes to pathology funding |

Key Activities for the Year

- Improved communications with an update of the company logo and practice support materials, and revitalisation of quarterly newsletters written by the specialist pathologist team on current clinical topics to support medical professionals in their practice.
- Commissioned a state of the art diagnostic immunoassay platform which has reduced maintenance downtime and shortened the turnaround time for result reporting.
- Used clinicians' molecular science expertise to develop a new, leading edge real time PCR test for the detection of an important Sexually Transmitted Infection (STI), commissioned by the specialist sexual health service in the Wellington region.
- Developed a new laboratory information system for the Biostandards environmental testing division which has delivered operational efficiencies and allows customised reporting to meet individual client needs.
- Created a unique software tool within the Laboratory Information System (LIS) to capture data from each of Abano Diagnostics' scientists to streamline the administration of essential Continuing Professional Development activities.

Income

Ninety-four percent of community pathology income is derived from public funds through DHBs and the MOH, and six percent from private payment. Public screening programmes such as that for cervical screening are funded by the MOH, with DHBs funding diagnostic pathology services in each region.

Market Overview

The community pathology area remains the sole service which is virtually 100 percent funded by the Government, and where there is very little direct consumer contribution. The community laboratory market is worth over \$190 million per annum, with the public hospital-based service about the same size.

Under the new Government funding structure, an emphasis has been placed on involving Primary Health Organisations (PHOs) in the establishment of new protocols for community diagnostic services. As such, the management and principal Pathologists for Abano Diagnostics are in consultation with DHBs and local PHOs in regards to the potential for rationalisation of services, in both the public and private sectors, while maintaining access for all community General Practitioners.

Although the actual number of laboratories within the market has remained the same, there is an increasing trend towards grouping of laboratories into fewer and larger commercial partnerships. Three major groups serve the community laboratory market and Abano Diagnostics holds 9.5 percent of this total market.

Outlook

The ageing population is placing an increasing demand on the community laboratory market, proving a direct correlation between laboratory use and age. As the population of over 65 year olds continues to grow, and with Government initiatives to reduce the cost of accessing general practice medical care in other age groups, the demand for diagnostic services is growing.

As improved testing modalities grow, demand for diagnostic services will continue to accelerate. We continue to explore new areas of testing with our increased capabilities in the growing field of Molecular Biology, and expanding private sector work through our environmental testing laboratory, Biostandards.

In addition, in June 2005, we announced that we are evaluating a new initiative with respect to a planned merger with Valley Diagnostics, an operating subsidiary of the Sonic Healthcare Group. This potential merger will create New Zealand's second largest single site laboratory. It is expected that a final decision on the merger will be confirmed in 2006 once contracting arrangements are completed with the Hutt Valley and Capital Coast DHBs.

ASCOT RADIOLOGY



| OBJECTIVES FOR 2004/2005 | RESULTS |
|--|---|
| To grow income through improved market share, new services and a modest price increase | Revenue increased by over 15 percent |
| Acquire a third ultrasound machine | A third ultrasound machine was acquired and is now operating above projections |
| Market 4D foetal scanning service | Implemented a successful marketing and public relations programme around 4D ultrasound, targeting referrers and consumers |
| Introduce PACS digital imaging software | The introduction of the PACS system was achieved and is delivering operational efficiencies to the business |

Key Activities for the Year

- Forty percent of Ascot Radiology was acquired by Abano Healthcare in February 2005, with an option to acquire a further 40 percent by May 2007.
- Ascot Radiology's main focus for the year was to increase revenues, through improved market share, the introduction of a third ultrasound machine and 4D scanning services, and a price increase.
- 4D scanning technology was the marketing opportunity behind the introduction of a third ultrasound machine. Ascot Radiology was one of the first in New Zealand to deliver 4D scanning, and patient throughput was over expectations, with the ability to grow demand further.
- Ascot Radiology was also the first private clinic in Auckland to adopt digital review of imaging. The system will be extended in the next year and images will be distributed via hospital network, Internet and CD.
- The Ascot board approved an upgrade of the MRI magnetic resonance imaging software which will allow increased throughput as demand for these services has grown. In addition, there have been several planned changes to key staff at Ascot Radiology which have resulted in increased referrals and efficiencies.

Income

Income is predominantly private payment as well as a mixture of ACC and MOH funding. ACC has recently improved access to High Tech Imaging as well as increasing subsidies for Low Tech Imaging in the financial period.

Ascot Hospital is currently at capacity so unless there is further building on site, more on-site referral is not anticipated, however, there is scope for attracting more off-site referral.

Referral from GPs has increased over the period as Ascot Radiology has continued to increase its profile with providers and increase the services on offer.

Market Overview

The radiology market in Auckland is increasing with population growth and a greater reliance on imaging.

Several imaging and scanning techniques are growing in demand as technology improves, including non-interventional imaging, Coronary Artery CT scanning and CT PET scanning in Oncology and Cardiac imaging.

PACS software is unquestionably the only way for future image distribution. This needs to be managed carefully so that all referrers feel comfortable, and Ascot Radiology is well advanced along this path.

Outlook

Ascot Radiology is a growing practice situated within one of Auckland's largest private hospitals.

As a start up business six years ago, Ascot Radiology has grown from a small base with limited referrers, to a practice that has state of the art modalities and 10 attending Radiologists covering all significant disciplines. Referrers have grown at over 20 percent per year to the point that second shifts are now operated in some areas to cover the additional work.

Abano believes radiology is an attractive investment for the Group and we will be moving to explore additional opportunities in coming months.