



GOVERNANCE

CORPORATE GOVERNANCE FRAMEWORK AT ABANO

We consider the nine governance principles identified in the Corporate Governance in New Zealand Principles and Guidelines report, drafted and released by the New Zealand Securities Commission in 2004, provide an appropriate guideline for our policies and practices and have applied these to our comprehensive corporate governance code.

We are also confident that our governance practices comply with the NZX Corporate Governance Best Practice Code in its entirety, for the year ended 31 May 2005.

The company will continue to monitor developments in best practice in the governance area and update its policies accordingly, to ensure it maintains the most appropriate standards for governance for Abano.

Our principal governance practices and policies are outlined on pages 27 to 35 of this report, however, further detail and full copies of the Company Constitution and individual governance policies can be found on the Abano website at http://www.abanohealthcare.co.nz/company/governance/role_board.html

[NZX Listing Rule 10.5.3 \(h\), 10.5.3 \(i\)](#)

THE BOARD OF DIRECTORS

The board of directors is elected by shareholders to govern Abano Healthcare Group in the shareholders' interests, and is the final body of responsibility for all decision making within the Company.

The board's key responsibilities are to formulate the strategic direction of the Group, to oversee the financial and operational controls of the business and to manage appropriate risk management strategies and policies. Our governance structure and practices encourage the highest standards of ethical conduct, and provide accountability and control systems commensurate with the risks involved.

The board is also responsible for the fostering of corporate culture, the appointment and remuneration of senior executives, the adoption of corporate plans and policies, the approval of transactions of substance and the review of business risks.

Board procedures and conduct are governed by the Company's Constitution and by the Directors' Manual of Board Policies, Procedures and Governance (Board Policy Manual). This manual serves as a reference for directors in focusing on, and evaluating, the board's framework, procedures and matters of governance.

ETHICAL CONDUCT

The board and management of Abano Healthcare Group Limited are committed to ensuring best practice in corporate governance is adhered to, and that the highest ethical standards are maintained by directors, staff and suppliers in all activities conducted by the Group, or in the interests of the Group.

The board has adopted a policy on business ethics which is designed to formalise the Group's commitment to the highest standards of ethical conduct and to provide employees and representatives with clear guidance on those standards.

The policy addresses conflicts of interest, receipt of gifts and entertainment, fair business practices, fair employment practices, and contractual obligations. A separate 'whistle blowing' policy has also been introduced to provide an avenue for employees to gain direct access to the managing director and/or chairman of the Audit Committee if they believe there are issues that need to be raised.

Corporate Governance in NZ: Principle 1: Directors should observe and foster high ethical standards
NZX Corporate Governance Best Practice Code 1.1, 1.2, 1.3

SELECTION AND ROLE OF THE CHAIRMAN

The chairman is selected by the board from non-executive directors. The board supports the separation of the role of chairman and chief executive officer. The chairman's role is to manage the board effectively, to provide leadership to the board, and to facilitate the board's interaction with the managing director.

NZX Corporate Governance Best Practice Code 2.1

BOARD MEMBERSHIP

The board currently consists of four non-executive directors and two executive directors, who are elected based on the value they bring to the board and against set criteria detailed in the nominations committee charter.

Each Abano director is a good seasoned businessperson, who has gained broad experience in a larger organisation or a professional practice. They provide value by making quality contributions to corporate governance matters, conceptual thinking and strategic planning, policies and providing guidance to enable management to increase profitable growth in the years ahead.

They have the necessary time available to devote to the position, broaden the board's expertise, have a personality that is compatible with the other directors and have a strong market perception.

In accordance with the Company's Constitution, Alan Clarke and Jim Syme retired and were re-elected at the 2004 annual meeting. The board now consists of:

Jim Syme	Independent chairman
Maurice Kidd	Non-executive director
Phil Newland	Independent director
Alison Paterson	Independent director
Dr Clint Teague	Executive medical director
Alan Clarke	Executive managing director

Profiles of board members are shown on pages 36 and 37.

The number of elected directors and the procedures for their retirement and re-election at annual meetings of shareholders are set out in the Constitution of the Company.

Corporate Governance in NZ: Principle 2: There should be a balance of independence, skills, knowledge, experience and perspectives among directors so that the board works effectively
NZX Listing Rule 3.3.1

DIRECTOR INDEPENDENCE

In order for a director to be independent, the board has determined that he or she must not be an executive of Abano Healthcare Group, and must have no disqualifying relationship. The board of Abano has followed the independence guidelines of the NZX, as follows:

An Independent Director shall not be an executive of the company or have a disqualifying relationship.

Without limiting the definition, a Director shall be deemed to have a Disqualifying Relationship in the following circumstances:

(a) the Director is a Substantial Security Holder of the Issuer or an Associated Person of the Substantial Security Holder (other than solely as a consequence of being a Director of the Issuer); or

(b) where:

(i) the Director has a relationship (other than in his or her capacity as a Director of the Issuer) with the Issuer or a Substantial Security Holder of the Issuer; or

(ii) an Associated Person of the Director has a relationship with the Issuer or a Substantial Security Holder of the Issuer; and

(iii) by virtue of the relationship in (b)(i) or (b)(ii) that Director or any Associated Person of that Director is likely to derive, in the current financial year of the Issuer, a substantial portion of his, her or its annual revenue during such financial year.

The board has determined that Jim Syme, Alison Paterson and Phil Newland are independent.

The board considers that Maurice Kidd's position as a director of Cullen Investments Limited (resigned 7 July 2005), which holds a significant shareholding in Abano Healthcare, precluded him from being independent.

Both Alan Clarke and Clinton Teague are executives of Abano Healthcare Group and therefore neither can be regarded as independent. Although Clinton Teague resigned as managing director of Medical Laboratory Wellington in 2004, he is still an employee of Abano Diagnostics and provides professional advice to the management team.

NZX Listing Rule 10.5.3 (j)

NOMINATION AND APPOINTMENT OF NEW DIRECTORS

The procedures for the nomination and appointment of directors are governed by Abano's constitution.

The nomination committee consists of all board directors and is responsible for identifying and recommending candidates to the board, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Directors.

Directors may also be nominated by shareholders under NZX Listing Rule 3.3.2. The nomination period opens at least three months before the date of the annual meeting, with a minimum period for nominations of one month and the closing date not greater than two months prior to the AGM. Abano notifies shareholders of this time period through a market announcement to the NZX.

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A director may be appointed by ordinary resolution and all directors are subject to removal by ordinary resolution.

The board may at any time appoint additional directors. A director appointed by the board shall hold office only until the next annual meeting of the company but shall be eligible for election at that meeting. The board has adopted a policy that any casual vacancies or director appointments made by the board will be of independent directors.

One third of the directors shall retire from office at the annual meeting each year. The directors to retire shall be those who have been longest in office since they were last elected or deemed elected.

[NZX Corporate Governance Best Practice Code 2.2, 2.3, 3.10, 3.11, 3.12](#)

[NZX Listing Rule 3.3.2](#)

DIRECTOR EDUCATION

Abano encourages all directors to undertake appropriate training and education so that they may best perform their duties. In addition, all directors are regularly updated on relevant industry and company issues, including briefings from key executives and ongoing presentations to the board by all business units.

[NZX Corporate Governance Best Practice Code 2.4](#)

BOARD ACCESS TO INFORMATION AND ADVICE

Directors receive materials for board meetings four days in advance, except in the case of special meetings, where the time period may be shorter due to urgency of the matter to be considered.

All directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at board meetings, or other areas as they consider appropriate.

The board, board committees and directors, subject to the approval of the chairman, have the right to seek independent professional advice at Abano's expense, to enable them to carry out their responsibilities.

[NZX Corporate Governance Best Practice Code 2.8](#)

MEETINGS HELD AND ATTENDED

The table below sets out the board and sub-committee meetings attended by directors during the course of the financial year.

	Jim Syme	Maurice Kidd	Phil Newland	Alison Paterson	Clint Teague	Alan Clarke
Full board	21	21	20	19	21	22
Remuneration	5	-	3	5	-	4
Audit	5	5	-	5	-	5
Planning	1	1	1	1	1	1

DISCLOSURE OF INTERESTS BY DIRECTORS

The Board Policy Manual sets out procedures to be followed where directors have an interest in a transaction or proposed transaction or are faced with a conflict of interest. Each business in the Group is required to maintain an interests register in which particulars of certain transactions and matters involving directors must be recorded. The interest's register for Abano Healthcare and its subsidiaries is available for inspection at its registered office.

Details of all matters entered into the interests register by individual directors are outlined on page 68 of this report. The declaration of an interest by a director in a particular entity as a shareholder or director serves notice that the director may benefit from any transaction between the Company or the Group and the identified entities.

DIRECTORS' SHARE DEALINGS

The Board Policy Manual sets out the procedures to be followed by directors when trading in Abano Healthcare shares. The policy adheres to the share trading protocol of the New Zealand Exchange (NZX).

Details of directors' share dealings are outlined on page 69.

DIRECTORS' USE OF INFORMATION

No member of the board of Abano Healthcare, or its subsidiaries, issued a notice to use information received by them in their capacity as directors, which would not otherwise have been available to them.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

The Group has arranged a policy of directors' and officers' liability insurance with QBE Insurance (International) Limited which ensures that generally directors and officers will incur no monetary loss as a result of actions undertaken by them as officers or directors.

DIRECTORS' SELF EVALUATION

The board is responsible to shareholders for the strategic overview and direction of the Group. In line with best practice, the board has a policy of annual self-evaluation of individual and board performance. The evaluation is undertaken by each member of the board, utilising a set questionnaire. These are then collated by the chairman and comments and feedback are discussed as a group. Any issues are identified and resolutions are passed to improve on those areas.

[NZX Corporate Governance Best Practice Code 2.9](#)

BOARD COMMITTEES

To assist directors in carrying out their duties, the board has two standing committees, comprising only non-executive directors - the audit committee and the remuneration committee - and one standing committee comprising all directors - the nominations committee - to focus on specific areas of responsibility.

The committees meet as required and have terms of reference, which are approved and reviewed by the board annually. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

[NZX Corporate Governance Best Practice Code 3.2, 3.3, 3.8, 3.9, 3.11, 3.12](#)

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AUDIT COMMITTEE

The role of the audit committee is to assist the board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding accountancy practices, policies and controls relative to the Group's financial position, and to review and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the board with additional assurance about the quality and reliability of the financial information used by the board, and of the financial information issued publicly by the Group.

Although the board as a whole is responsible for the accuracy and relevance of the Group's financial statements, the audit committee provides an additional, and more specialised, oversight of the financial reporting process. The committee also reviews operation of internal controls and the quality and cost of the audit undertaken by the Group's external auditors.

The audit committee comprises three non-executive directors, of whom at least two must be independent, and at least one must be considered a financial expert. The chairman of the audit committee shall not be the chairman of the Company.

The audit committee members are M.G. Kidd - chairman, J.M.R Syme and A.M. Paterson and it met five times in the past financial year. Managing director, Alan Clarke, and chief financial officer, Richard Keys, have standing invitations to join the audit committee meetings. In addition, the external auditor attends meetings of the audit committee.

NZX Corporate Governance Best Practice Code 3.1, 3.4, 3.5, 3.6

NZX Listing Rule 3.6, 3.6.1, 3.6.2, 3.6.3

REMUNERATION COMMITTEE

The primary role of the remuneration committee is to review and recommend the remuneration, benefits and terms of employment of the Group's senior executives, including the managing director. This role also includes responsibility for share option schemes, incentive performance packages and fringe benefit policies. In carrying out this role, the sub-committee acts independently of senior management of the Company and obtains independent advice on the appropriateness of remuneration packages.

The remuneration committee comprises A.M. Paterson - chairman, J.M.R Syme and P.S. Newland and it met five times in the past financial year, with Alan Clarke in attendance.

NZX Corporate Governance Best Practice Code 3.7

NOMINATION COMMITTEE

The role of the nomination committee is to identify and recommend candidates for directors, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other directors.

The nomination committee was established since year-end, in July 2005, and comprises all of the directors.

Corporate Governance in NZ: Principle 3: The board should use committees where this would enable its effectiveness in key areas while retaining board responsibility

NZ Listing Rule 3.6

NZX Corporate Governance Best Practice Code 2.5, 3.1 to 3.12

REMUNERATION AT ABANO

REMUNERATION OF DIRECTORS

Remuneration of directors and executives is the key responsibility of the remuneration committee.

Directors' fees are within the \$150,000 approved at the 1999 annual meeting. All non-executive directors receive \$30,000 p.a. with the chairman receiving \$60,000 p.a. Executive directors do not receive director's fees.

Board members are encouraged to hold shares in Abano, however, all fees are paid in cash and it is up to the individual director's discretion to purchase shares in the Group if he/she wishes.

Under the NZ Listing Rule 3.5.2, the board may only make a payment to a director upon cessation or retirement from office with shareholder approval. Abano's current board policy is that no sum is paid to a director upon retirement or cessation of office.

[NZX Corporate Governance Best Practice Code 2.6, 2.7](#)

[NZX Listing Rule 3.5.1, 3.5.2](#)

Remuneration of Executives

Executive remuneration comprises a fixed base salary and a variable bonus paid annually. Bonuses are paid against targets agreed with executives at the commencement of the year, and are based on profitability, growth and personal objectives. Once the level of bonus achieved has been determined the executive is given the choice of taking the bonus in the form of cash or ordinary shares.

In the case of shares, the price at which shares are issued is the average closing share price of ordinary shares in Abano on the New Zealand Exchange over the five business days immediately following the announcement of the company's annual result.

Shareholder approval was sought and received at the 2002 annual meeting for the establishment of a three year scheme whereby the board may issue shares in lieu of cash to the managing director.

In addition, there is a long-term share incentive scheme for senior members of the Group's management team and each has received convertible notes in the Company. From 1 June 2001, the cost of all share entitlements is being expensed in the Statement of Financial Performance as part of executive remuneration using the fair value method.

The board is also currently reviewing a long term incentive scheme that will further align key executives to shareholder return objectives. Details of directors and executives' remuneration and entitlements are detailed under Remuneration of Employees information on page 70.

[Corporate Governance in NZ: Principle 5: The remuneration of directors and executives should be transparent, fair and reasonable.](#)

MANAGING RISK

The board has overall responsibility for the company's system of risk management and internal control and has procedures in place to provide effective control within the management and reporting structure.

Financial statements are prepared monthly and are reviewed by the board progressively throughout the year to monitor management's performance against budget goals and objectives, and the board requires managers to identify and respond to risk exposures. In addition, a quarterly formal risk assessment review is presented to the board by the managing director, which identifies areas of exposure and strategies to mitigate these.

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A structured framework is in place for capital expenditure, including appropriate authorisation and approval levels which place a high emphasis on the commercial logic for the investment. The board has set limits to management's ability to incur expenditure, enter contracts and acquire or dispose of assets.

Risk profiles which identify, assess, monitor and report the company's key business risks are reviewed by the board. These risk profiles also identify the key risk mitigation strategies which are in place.

The board reviews an overall view of the risk profile of the Group and is responsible for monitoring corporate risk assessment processes.

Corporate Governance in NZ: Principle 6: The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks

DISCLOSURE

Abano's continuous disclosure policy governs the release to market of all material information that may affect the value of the company. The board requires that senior management, particularly the managing director and chief financial officer, discuss if information is material and arrange for its release to the market.

In addition, the managing director and chief financial officer are responsible for the generation of financial reports, for review by the audit committee and audit by external auditors.

Corporate Governance in NZ: Principle 6: The board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs

SHAREHOLDER REPORTING

In each year, the Group provides shareholders with an annual and interim (six-month) report. We also provide shareholders with a quarterly newsletter, which provides an overview of the Group's progress, an update of each sector's performance and news and an analysis of relevant aspects of the healthcare and medical services market. Copies of all major news releases, announcements and company reports are available on the company's website at www.abanohealthcare.co.nz

Shareholders may now also subscribe to receive copies of company documents and news announcements electronically by completing the online form at www.abano.co.nz/investor/emailform

Shareholders may raise matters for discussion at annual meetings and have the ultimate control in corporate governance by voting directors on or off the board.

The company maintains written policies which provide guidance and accountability for compliance with continuous disclosure, and other listing requirements of the NZX.

Corporate Governance in NZ: Principle 8: The board should foster constructive relationships with shareholders that encourage them to engage with the entity.

STAKEHOLDERS' INTERESTS

The Group has a wide range of stakeholders and maintains open channels of communication for all audiences. Quarterly newsletters, half year reports and annual reports are distributed to a wide range of stakeholders by the Group and management encourage phone calls and communications from interested parties.

In addition, regular newsletters are produced and distributed by individual businesses within the Group and provide updates of business activities and events.

Principle 9: The board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose

AUDITOR INDEPENDENCE

Audit work is fully separated from non-audit services. This is beyond recommendations proposed by IFAC (International Federation of Accountants) regulations, the 2002 ICANZ (Institute of Chartered Accountants of New Zealand) publication entitled "Corporate Transparency" and the NZX, to ensure that appropriate independence is maintained.

The audit committee reviews the quality and cost of the audit undertaken by the Group's external auditors, and provides a formal channel of communication between the board, senior management and external auditors. The committee also assesses the auditor's independence on an annual basis.

At the annual meeting in November 2004, shareholders approved the re-appointment of PriceWaterhouseCoopers as external auditors for the Company.

Principle 7: The board should ensure the quality and independence of the external audit process.
NZX Corporate Governance Best Practice Code 4.1, 4.2, 4

SUBSEQUENT EVENTS

There is no material change to the accounts as presented.

TREASURY POLICY AND INTEREST RATE RISK MANAGEMENT

In September 2002, the board adopted a treasury policy with regards to the management of interest rate risk. The policy includes delegated authority controls, a minimum level of 60 percent and maximum of 90 percent fixed rate debt on forecast debt levels, and a targeted maturity profile for fixed rate debt swap agreements. At 31 May 2005, 55 percent of the Company's bank debt was covered by fixed rate swap agreements, details of which are included on page 56.

DIRECTORS AND SENIOR EXECUTIVE TEAM



JIM SYME Independent Chairman
BCom, FACA, CMA

Jim is a member of the audit and remuneration committee and has an extensive corporate and financial background. He has a wide knowledge of corporate governance in both small and large companies and has been involved in the strategic development and guidance of a number of new business initiatives. Jim is chairman of Waste Management NZ Ltd, a director of Kiwi Income Properties Ltd (the manager for Kiwi Income Property Trust), and the chairman of Software of Excellence International Ltd. In addition, he is the deputy chairman of ASB Bank Ltd and deputy chairman of ASB Group (Life) Ltd (Sovereign Assurance Group).



MAURICE KIDD Director
BCom, CA

Maurice is a member of the audit committee. He was a director of Cullen Investments Ltd (resigned 7 July 2005), and also a director of many of Cullen's investee companies including chairman of Pacific Retail Group Ltd. Maurice has a finance and investment background with extensive governance experience as a director or chairman for a number of public and private companies. His understanding of financial markets is of key benefit to Abano in maintaining a sound capital and financial base.



PHIL NEWLAND Director
BCA, Llb, MS (NYU)

Phil Newland is a member of the remuneration committee. He is an experienced director having held board positions with a range of both private and public directorships both in New Zealand and Australia. He is an executive director of St Laurence, and an independent director for Abano. Phil has degrees in business and law, as well as a Masters in finance and investment from New York University.



ALISON PATERSON Independent Director
FCA

Alison has a background in corporate governance in both the service and healthcare industry sectors, including previous appointments as the chairman of the Waitemata District Health Board and the District Health Boards New Zealand Inc. She has also served as a deputy chairman for Health Waikato and as a director of Health Benefits Ltd.

She holds a number of directorships including Reserve Bank of New Zealand Ltd, Barnardos and Metro Water Ltd and is the current chairman of Landcorp Farming Ltd, BPAC NZ Ltd and the Electricity Complaints Commission. She is also chairman of the Governing Board Centre of Research, Excellence, Growth and Development for the University of Auckland, and a board member of Nga Pae o Te Maramatanga (Maori Centre of Research Excellence). Her depth of experience in the governance of a number of public and private companies, and her understanding of the healthcare market and experience with political appointments add considerable value to the implementation of the Abano healthcare strategy.

ALAN CLARKE Managing Director
BSc(Hons), MBA

Alan is a director of all Abano subsidiary companies. He is charged with formulation and implementation of the Group's strategic plan and performance. Alan has held a number of senior management roles and directorships for both public and private companies, in New Zealand and overseas, and he has extensive experience in the healthcare sector.



DR CLINT TEAGUE Medical Director
MB, ChB, DCP, PhD, FRCPA

Dr Clinton Teague is a consultant pathologist at Medical Laboratory Wellington. He has had a long and distinguished career in medicine and has extensive knowledge and experience of the pathology industry, as a scientist, doctor and businessman.



RICHARD KEYS Chief Financial Officer
BCom, CA

Richard is a director of all Abano subsidiary companies. He has a background in general management, as well as experience in both private and public healthcare. He has worked in senior management positions within the health industry and is a member of the Institute of Directors.



STEPHEN ST PAUL Group Financial Controller
BCom, CA

Stephen has been with Abano since its inception as an aged care provider, and has seen the business grow from ownership of three nursing homes, into what it is today. He is a director of most Abano subsidiary companies, and is responsible for the corporate control of each of the sector's financial functions. Prior to joining Abano, Stephen was responsible for the financial function of the New Zealand arm of an international public relations consultancy.

