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23 August 2005

The Chairman
Abano Healthcare Group Ltd
Level 27
PriceWaterhouseCoopers Tower
188 Quay Street
AUCKLAND

Dear Sir,

Appraisal Report

1 Background

The shareholders of Abano Healthcare Group Limited ("Abano") will be asked to vote at the Abano Annual Meeting on 23 September 2005 on resolutions to approve changes to the remuneration of several of the Company's key executives. The terms of these resolutions can be found in the Notice of Meeting and are summarised below.

The Proposed New Employment Agreement with Abano's Managing Director

The Board of Directors ("the Board") of Abano is proposing to enter into a new employment agreement ("the Proposed New Employment Agreement") with Abano's Managing Director, Mr Alan Clarke.

Mr Clarke's current employment agreement provides for:

- a base annual salary of \$275,500 plus other agreed benefits (e.g. Health insurance etc);
- a bonus entitlement of up to 25% of base annual salary, 50% of which is payable on the company achieving budgeted profit targets and 50% on Mr Clarke achieving certain qualitative targets; and
- an annual review of salary and other benefits on 1 June each year.

The Proposed New Employment agreement provides for:

- a base annual salary of \$300,000 plus other agreed benefits (e.g. Health insurance);
- an annual bonus entitlement of 25% of annual salary, which is payable on the Company achieving budgeted profit targets, with the possibility of a further 25% of annual salary for performance over budget;
- an annual review of salary and other benefits on 1 June each year; and

- a one off bonus payment (“the Eldercare Sale Bonus”) of \$82,000. Grant Samuel has been advised that the bonus is to reward Mr Clarke for his part in the recent successful divestment of Abano’s aged care business – Eldercare New Zealand Limited (“Eldercare”).

Abano did not achieve budgeted profit for the year ended 31 May 2005 however the Board has elected to waive the conditions of the annual bonus payment and pay Mr Clarke a bonus for this period at the maximum 25% rate. The Eldercare Sale Bonus, which is payable in addition to the annual bonus entitlement will increase Mr Clarke’s cash remuneration for the year ending 31 May 2005 to \$426,375.

The Proposed New Employment Agreement will increase Mr Clarke’s potential earnings for the financial year ending 31 May 2006 to \$450,000.

The Proposed Incentive Plan

In addition to the above proposal the Board is also proposing the introduction of an incentive plan (“the Proposed Incentive Plan”) for Mr Clarke, Mr Keys, Abano’s Chief Financial Officer, and Mr Tapper, Business Development Manager, (“the Executives”). The terms and conditions of the Proposed Incentive Plan are summarised as follows:

- Abano will issue ordinary shares (“the Shares”) to the Executives at the volume weighted average market price over the five trading days prior to the issue of the Shares (including the date of issue) (“the Issue Price”);
- shares with a total value of \$240,000, based on the Issue Price, will be offered to Mr Clarke;
- shares with a total value of \$121,000, based on the Issue Price, will be offered to Mr Keys;
- shares with a total value of \$121,000, based on the Issue Price, will be offered to Mr Tapper;
- Abano will grant a put option (“the Put Option”) to the Executives giving them the right to sell the Shares at the Issue Price to the Company on the third anniversary of the date of acquisition of the Shares by the Executives (“the Acquisition Date”);
- each Executive will grant a call option (“the Call Option”) to the Company giving it the right to buy the Shares at the Issue Price if certain Performance Criteria (“the Performance Criteria”) are not met. The Call Option will be granted in three tranches, each tranche exercisable over a third of the Shares issued to each Executive on each of the first, second and third anniversaries of the Acquisition Date;
- the Company can choose not to exercise the Call Option, even if the Performance Criteria are not met;
- the Company will make available to the Executives an interest free loan (“the Loan”) for the sole purpose of funding the purchase price of the Shares which will be repayable in full on the third anniversary of the Acquisition Date;
- if either of the Put or Call Options are exercised the Executives will be required to apply the proceeds to the repayment of the Loan; and
- if the Performance Criteria are met in one or more of the three years covered by the scheme or if the Company chooses not to exercise its rights under the Call Option, either in full or in part, and the Executive exercises the Put Option, then that Executive will receive, pursuant to the terms of his employment agreement, a cash bonus (“the Incentive Plan Bonus”). The bonus will equal the amount of the Loan outstanding at the date the option is exercised.

2 Scope of the Report

2.1 Purpose of the Report

Under Rule 9.2.1 of the New Zealand Exchange Listings Rules (“NZX Listing Rules”), an Issuer may enter into a Material Transaction with a Related Party if the Material Transaction is an employment agreement with a person who is not a director or if the Material Transaction is approved by an Ordinary Resolution of the Issuer.

NZX Listing Rule 9.2.2 defines a “Material Transaction” as:

“a transaction or related series of transactions whereby an Issuer...provides or obtains any services (including without limitation the underwriting of Securities or services as an employee) in respect of which the actual gross cost to the Issuer in any financial year (ignoring any returns or benefits in connection with such services) is likely to exceed an amount equal to 0.5% of the Average Market Capitalisation of the Issuer”

“Average Market Capitalisation means the average end-of-day market capitalisation of the Issuer’s Equity Securities carrying Votes over the 20 Business Days before the earlier of the day the transaction is entered into or is announced to the market”

Similarly, a definition of a Related Party under NZX Listing Rule 9.2.3 is:

“a Director or officer of the Issuer or any of its Subsidiaries”

As Mr Clarke is a director of Abano and Mr Keys is a director of a number of subsidiaries of the Company both parties are currently “Related Parties” and accordingly are covered by Listing Rule 9.2.1.

The Proposed New Employment Agreement and the Eldercare Sale Bonus

The tables below detail Mr Clarke’s potential remuneration for the years ending 31 May 2005 and 2006, and the percentages these amounts represent of the market capitalisation of Abano as at 19 August 2005, assuming the Proposed New Employment Agreement is implemented:

Remuneration for the Year Ending 31 May 2005		
	Amount	% of Current Market Capitalisation
Base Annual Salary	\$275,500	
Annual Bonus Entitlement	\$68,875	
Total	\$344,375	0.6%
Eldercare Sale Bonus	\$82,000	
Grand Total	\$426,375	0.7%

Remuneration of the Year Ending 31 May 2006		
	Amount	% of Current Market Capitalisation
Base Annual Salary	\$300,000	
Maximum Annual Bonus Entitlement	\$150,000	
Grand Total	\$450,000	0.8%

Current market capitalisation, as at 19 August 2005, is used as a proxy for Average Market Capitalisation (as defined above) in the above analysis.

In each of the years considered above, Mr Clarke's total potential remuneration is in excess of 0.5% of Abano's current market capitalisation. The Proposed New Employment Agreement, which provides for both the Eldercare Sale Bonus and the increase in annual salary entitlement, therefore constitutes a "Material Transaction" with a "Related Party" and requires shareholder approval.

Abano appointed Mr Clarke to the position of Chief Executive Officer in February 2000. The level of remuneration provided for by Mr Clarke's employment agreement at this time was in excess 0.5% of Abano's then Average Market Capitalisation. Shareholder approval was not required at that time as Mr Clarke was not a Related Party by virtue of not being either a director of Abano or any of its subsidiaries.

Mr Clarke was appointed to the position of Managing Director during October 2001 and continued his employment with Abano under the terms of his original employment agreement. The salary provided for by this agreement has been increased twice in the intervening 4 years. Each increase in annual salary entitlement since Mr Clarke's appointment as Managing Director constituted a Material Transaction with a Related Party. Abano did not seek NZX waiver or shareholder approval for either transaction.

The Proposed Incentive Plan

The table below shows the amounts payable to Mr Clarke and Mr Keys under the terms of the Proposed Incentive Plan in the financial year in which the Incentive Plan Bonus becomes payable, and the percentages these amounts represent of the market capitalisation of Abano as at 19 August 2005 (again used as a proxy for Average Market Capitalisation as defined above), assuming:

- no increase in current annual salaries;
- annual bonus payments in the year considered at the maximum level allowed for by each executive's current employment agreement; and
- all three performance targets under the terms of the Proposed Incentive Plan are met.

Maximum Remuneration Payable in the Financial Year in Which the Incentive Plan Bonus Becomes Payable					
Executive	Initial Value of Shares to be Issued	Maximum Incentive Plan Bonus	Current Annual Maximum Remuneration	Assumed Total Remuneration	% of Current Market Capitalisation
	A	A	B	C = A + B	C/\$58.3 m
Mr Clarke	\$240,000	\$240,000	\$344,375	\$584,375	1.0%
Mr Keys	\$121,000	\$121,000	\$245,000	\$366,000	0.6%

If the Proposed New Employment Agreement is put in place Mr Clarke's remuneration could reach a maximum of \$690,000 in the year that the Incentive Plan Bonus becomes payable, representing 1.2% of Abano's current market capitalisation.

Given that the total remuneration of both Mr Clarke and Mr Keys has the potential to exceed 0.5% of Abano's Average Market Capitalisation if the Incentive Plan Bonus is paid in full, the proposed amendments to Mr Keys' employment agreement and the inclusion of a provision in Mr Clarke's Proposed New Employment Agreement to incorporate a mechanism for the payment of the Incentive Plan Bonus are "Material Transactions".

Shareholders will be asked to vote at the Company's Annual Meeting on 23 September 2005 on ordinary resolutions to approve the following Material Transactions with Related Parties:

- the Proposed New Employment Agreement with Mr Clarke; and
- the terms and conditions of the Proposed Incentive Plan.

The text of these resolutions must be set out in the Notice of Meeting and, pursuant to NZX Listing Rule 9.2.5, part (b), the Notice of Meeting must be accompanied by an Appraisal Report that considers each of the above. Accordingly, the Board of Abano has requested Grant Samuel & Associates Limited ("Grant Samuel") to provide this Appraisal Report to evaluate the Proposed New Employment Agreement and the Incentive Plan Bonuses ("the Proposed Transactions") and to determine whether the terms and conditions are fair to Abano shareholders other than the Related Parties to each transaction.

Shareholders should note that the NZX Listing Rules require the Appraisal Report to address only the payment of the Incentive Plan Bonus. However, shareholders will be asked to vote to approve the Proposed Incentive Plan in its entirety.

Grant Samuel has received the approval of the New Zealand Exchange to provide this Appraisal Report. Pursuant to Listing Rule 1.2.2 the Appraisal Report shall:

- state whether or not in the opinion of the reporter the considerations and the terms and conditions of the Proposed Transactions are fair to the holders of equity securities other than those associated with the Related Parties to each transaction;
- state whether or not in the opinion of the reporter the information to be provided by Abano to shareholders is sufficient to enable the shareholders to understand all relevant factors, and make an informed decision;
- state whether the reporter has obtained all information which the reporter believes desirable for the purposes of preparing the report, including all relevant information which is or should have been known to any director of the issuer and made available to the directors;
- state any material assumptions on which the reporter's opinion is based; and
- state any term of reference which may have materially restricted the scope of the report.

The term "fair" has no legal definition in New Zealand either in the NZX Listing Rules themselves or in any other statutes dealing with securities or commercial law. However, guidance in interpreting and applying the rule can be gained both from regulatory interpretation in other jurisdictions and rulings made by the former Market Surveillance Panel of the NZX.

This Appraisal Report has been prepared to assist Abano shareholders in assessing whether or not to approve the Proposed Transactions. This Appraisal Report should not be used for any other purpose.

Grant Samuel believes that its opinion must be considered as a whole and that selecting parts of the evaluation or factors considered in isolation, without considering all factors together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

The decision of each Abano shareholder as to whether or not to vote in favor of the Proposed Transactions is a matter for individual holders having considered these factors and their own preferences.

2.2 Limitations and Reliance on Information

The report is based upon information provided by Abano. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to the fairness of the Proposed Transactions. Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or 'due diligence' investigation might disclose.

Grant Samuel has reviewed the Notice of Meeting and other documentation relating to the Proposed Transactions that is to be sent to Abano shareholders. In Grant Samuel's opinion the information provided by Abano, which includes the information set out in this report, is sufficient to enable the Abano shareholders to understand all relevant factors and make an informed decision.

2.3 Current Market Conditions

The opinion of Grant Samuel is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

2.4 Sources of Information

The primary sources of information on which this report is based include the following:

- draft documents setting out the terms and conditions of each of the Proposed Transactions;
- the draft Notice of Meeting to be sent to Abano shareholders in relation to the 2005 Annual Meeting;
- annual reports for Abano for the years ended 31 May 2003 and 2004;
- strategic plan financial forecasts for Abano; and
- remuneration advice from Hay Group Limited.

During the course of preparing this report, Grant Samuel also held discussions with and received information from senior management of Abano.

3 Evaluation of the Proposed New Employment Agreement

The Proposed New Employment Agreement provides for:

- the Eldercare Sale Bonus, which will impact upon Mr Clark's earnings for the financial year ended 31 May 2005; and
- an increase in Mr Clarke's annual salary entitlement, with effect from 1 June 2005.

Each of the elements are considered separately below.

3.1 The Eldercare Sale Bonus

On 24 May 2005 Abano announced the sale of its aged care business, Eldercare, for a total consideration of \$63.5 million, a price that significantly exceeded market expectations. A capital profit of approximately \$10 million was realised through the sale, a portion of which is to be returned to shareholders through a share buy back.

Resolution 8 of the Notice of Meeting proposes that a payment of \$82,000 be made to Mr Clarke in recognition of his achievement of the sale and settlement of Eldercare. It is common practice for executives to be rewarded financially for successfully completing transactions that have a significant positive financial impact on a company.

In Grant Samuel's opinion the Eldercare Sale Bonus will not have any discernible negative economic cost impact on current shareholders of Abano. If the Proposed New Employment Agreement is approved and the Eldercare Sale Bonus is paid, Mr Clarke's remuneration for the financial year ending 31 May 2005 will equal \$426,375. This total amount exceeds 0.5% of the Abano's Average Market Capitalisation but is small relative to the Company's earnings for last year. The \$82,000 represents only 0.8% of the capital profit from the Eldercare sale and 0.1% of the total proceeds.

3.2 Mr Clarke's Annual Salary Entitlement

As part of Mr Clarke's annual salary review and also as a result of the significant changes to the scope of Mr Clarke's role following the sale of Eldercare, the Board of Abano has commissioned advice from independent remuneration consultants, the Hay Group Limited ("the Hay Group"). The advice concludes that for a Chief Executive a base annual salary within the range \$201,000 to \$355,000 is consistent with current market practice. It also states that investment-oriented organisations commonly adopt a benchmark above the median and around the upper quartile of this range for competitive reasons. The Board are proposing to increase Mr Clarke's current salary from \$275,500 to \$300,000, which is consistent with the advice from the Hay Group.

With regard to annual bonus entitlement, the Hay Group quotes a market median of 29% of annual salary and an upper quartile benchmark of 38%. The advice notes that higher percentage bonuses could be contemplated in circumstances where performance exceeds expectations. The Board are proposing that Mr Clarke's maximum annual bonus entitlement should be increased to 50% of base annual salary. However, it is intended that Mr Clarke will only receive a bonus in excess of 25% of annual salary if the Company's profit in any given year exceeds budget.

In Grant Samuel's opinion the annual salary provided for by the Proposed New Employment Agreement is at the upper end of the range stated in the advice from the Hay Group. If the Company's profits meet budget it is intended that Mr Clarke will receive a bonus payment of 25% of annual salary, which is below the 39% Hay Group benchmark. However, if the Company's profits exceed budget Mr Clarke may receive a bonus of up to 50% of annual salary.

4 Evaluation of the Incentive Plan Bonus

4.1 Approach

Grant Samuel has evaluated the Incentive Plan Bonus by reference to:

- the purpose of the Proposed Incentive Plan;
- the mechanics of the Proposed Incentive Plan;
- the mechanics of the Incentive Plan Bonus; and
- the impact of the Incentive Plan Bonus on shareholders other than Mr Clarke and Mr Keys.

4.2 Purpose of the Proposed Incentive Plan

The following extract relating to the Proposed Incentive Plan is taken from the Notice of Meeting:

“The Scheme is intended to better align the Executive’s and shareholder’s interests in regards to improving the profitability of the Company, as well as the retention of key executives. The Board believes that the Scheme will strengthen the incentives of the Executives to ensure the Company performs to agreed standards as the Executives will have the opportunity to share in any improvements in the Company’s financial position. The Scheme, together with the proposed amendments to the Executive’s employment agreements, also provides an incentive to the Executives to reach performance criteria set by the Board with potential bonuses”

In 2001 Abano established an incentive scheme under which certain senior executives were given the opportunity to subscribe for optional convertible notes. The notes vested to the holders over a period of three years, which has now ended, and had varying conversion prices. The notes can be converted, at the option of the holder, into ordinary shares. The purchase price required upon conversion can be funded through a loan from Abano but in contrast to the Proposed Incentive Plan interest is payable on the loan balance. Mr Clarke participated in the 2001 scheme however Mr Clarke’s notes expired “out of the money” on 1 April 2005. Mr Keys holds convertible notes that expire in June 2007. For any of the notes outstanding to be “in the money” prior to expiration Abano’s current share price would have to increase by approximately 19% per annum over the next two years.

The terms of the Proposed Incentive plan ensure that the Executives will receive a financial benefit if any of the Performance Criteria are met or if the Company chooses not to exercise the Call Option in part or in full. The inclusion of a cash bonus removes the dependence on improved share price performance, which prevented Mr Clarke realising any benefit through the previous scheme. The issuance of shares rather than convertible notes or options also enables each Executives to receive any dividend payments made by the Company over the next three years in relation to shares still held by the Executive at the end of the three year period.

4.3 Mechanics of the Proposed Incentive Plan

The consideration for the shares issued under the Proposed Incentive Plan will be funded by an interest free loan to the Executives from the Company, the terms and condition of the loan are as follows:

- the Loan will have a term of 3 years and must be repaid in full upon expiration;

- the Loan may only be used for the purpose of funding the purchase of shares under the Proposed Incentive Plan;
- the terms of the Loan will restrict the disposal of the shares during the loan term;
- if either of the Put or Call Options are exercised each Executive will be required to apply the proceeds received to the loan;
- the Executives will beneficially own the Shares throughout the term of the Loan except where some or all of the shares are sold back to the Company as a result of the Call Option being exercised; and
- any dividends paid by the Company in relation to an Executive's Shares during the term of the Loan will accrue to the benefit of that Executive, but will not be paid until the Loan expires at the end of the third year. If the Company exercises its Call Option in relation to any of an Executive's Shares, that Executive will not be entitled to receive the accrued dividend on those shares.

The terms of the Proposed Incentive Plan give Abano the option to buy back one third of the total shares issued to each Executive at the Issue Price at the end of each of the three years covered by the option, if the Performance Criteria are not met.

For the Performance Criteria to be met the EBITDA of the Group after corporate costs but before non core and unusual earnings ("Core EBITDA") as a percentage of the average of the monthly sum of net working capital and non-current assets, including goodwill ("Invested Capital") must be in excess of the amounts detailed in the table below in each of the next 3 financial years:

Performance Criteria	
Relevant Financial Year	Core EBITDA as a Percentage of Invested Capital
2005/2006	17.3%
2006/2007	25.8%
2007/2008	30.5%

For the 2004/2005 financial year the Core EBITDA as a percentage of Invested Capital was 10.1%. Assuming Invested Capital remains constant EBITDA will need to increase by over 200% over the next three years for the final performance target to be met.

On the third anniversary of the Acquisition Date each Executive will be eligible to exercise the Put Option, whereby the company will buy back any shares still held by the Executive at the issue price and make a bonus payment to the Executive equal to the amount of the Loan then outstanding - the Incentive Plan Bonus. Alternately, at this juncture the Executive may sell the shares in the market and repay the Loan or retain the shares and repay the Loan using alternative funds.

Abano has the option to exercise the Call Option if the Performance Criteria are not met. However, the Board of Abano can choose not to exercise the Call Option, which would enable the Executives to earn an Incentive Plan Bonus in year three regardless of whether the performance targets are achieved.

4.4 The Mechanics of the Incentive Plan Bonus

The Incentive Plan Bonus forms an integral part of the Proposed Incentive Plan and will be implemented through the amendment of Mr Keys' current employment agreement and the inclusion of an appropriate provision in Mr Clarke's new employment agreement. .

The Incentive Plan Bonus will be paid to the Executives if the Put Option is exercised and will result in a pre tax benefit to each Executives equal to the amount outstanding under the Loan at the exercise date. If the Performance Criteria are met in each of the relevant financial years the company will not be permitted to exercise the Call Option and each Loan will be maintained at its original value. For every year that the Performance Criteria are not met the Company can choose to exercise the Call Option over one third of the shares issued to the Executives. Each time the Call Option is exercised the Loan outstanding and consequently the Incentive Plan Bonus available will be reduced by one third. The Company may choose not to exercise its Call Option in any year, thus maintaining the balance of the Loan to the Executive. In such circumstances the Executives will still be entitled to receive the Incentive Plan Bonus in respect of that year.

Possible Incentive Plan Bonus Payments Upon Exercise of the Put Option				
Performance Criteria Met	Incentive Plan Bonus		Net Benefit After Tax	
	Mr Clarke	Mr Keys	Mr Clarke	Mr Keys
1 out of 3	\$80,000	\$40,333	\$48,800	\$24,603
2 out of 3	\$160,000	\$80,666	\$97,600	\$49,206
3 out of 3	\$240,000	\$121,000	\$146,400	\$73,810

It is assumed that the Incentive Plan Bonus will be taxed at the top marginal rate of tax, which is currently 39%.

The Put Option will only not be exercised if the market value of the shares has increased by an amount in excess of the available Incentive Plan Bonus less tax at 39%, or in other words unless the share price increases by 61% over the next three years.

4.5 Impact of the Incentive Plan Bonus on existing shareholders

In Grant Samuel's opinion the Incentive Plan Bonus will not have any discernible negative economic cost impact on current shareholders of Abano. The proposed amendment to Mr Keys' employment agreement and the inclusion of a provision relating to Incentive Plan Bonus in Mr Clarke's Proposed New Employment Agreement may result in the total amount payable to each executive in the 2008/2009 financial year exceeding 0.5% of the Average Market Capitalisation of Abano. However, these payments are very small relative to the Company's current and forecast earnings.

Point 2 of the Explanatory Notes contained within the Notice of Meeting states that the Proposed Incentive Plan is intended to better align the Executive's and shareholders' interests in regards to improving the profitability of the Company, as well as the retention of key executives. In Grant Samuel's opinion the Proposed Incentive Plan is likely to achieve this objective over the short term, providing the Company exercises its rights under the Call Option if the Performance Criteria are not met.

In the absence of the Incentive Plan Bonus, the Executives would financially benefit from the Proposed Incentive Plan under the following circumstances:

- if any one or more of the three earnings targets are met (assuming that the Company would exercise its Call options if they were not); and
- if the share price at the end of the third year is higher than the Issue Price of the shares.

Accordingly, the Executives would be incentivised to promote growth in the share price whilst achieving steady growth in short-term earnings.

With the addition of the cash bonus element, a financial benefit is achieved:

- if any one or more of the three earnings targets are met (again assuming the Company would exercise its Call Options if they were not).

The Executives can reasonably be expected to not exercise the Put Option (i.e. relinquish the shares in return for the cash bonus) if the uplift in Abano's share price is such that the value of the shares held by each executive under the Proposed Incentive Plan exceeds the value of the cash bonus net of tax. The Abano share price must increase by 61% for it to be more attractive to sell the shares in the market than put them back to the company and accept the cash bonus. Given that 61% growth in the share price over 3 years is a relatively ambitious target it is conceivable that the Executives will focus on the short-term performance of the company to satisfy the Performance Criteria and maximise the cash bonus.

The proposed executive remuneration can therefore be regarded as a three year bonus scheme which has the option of acquiring shares in lieu of receiving the bonus payment where the share price appreciation has exceeded 61% over three years.

The Incentive Plan Bonus payment effectively provides an underwrite to the share incentive scheme if the share price does not respond to the increase in earnings. Given that the share market tends to take a long-term view on earnings it is a possibility that the share price at the end of the third year will not reflect fully the increase in return on capital invested, particularly if the market believes the current earnings are not sustainable or future earnings growth will be low or negative. Given that the executives stand to financially benefit from the Proposed Incentive Plan regardless of share price performance it can not be concluded that the Proposed Incentive Plan aligns the interests of the Executive's and shareholders to the extent that a simple share or option scheme would.

It can reasonably be expected that the Proposed Incentive Plan will incentivise the Executives to focus on earnings growth over the next three years to earn the Incentive Plan Bonus, which will be positive, but in theory earnings could be maximised in the short term at the expense of long-term share price growth.

Under the terms of the Proposed Incentive Plan it is possible that the Executives may receive a financial benefit even if none of the performance targets are met, should the Company elect to not exercise its Call Option in part or in full.

5 Summary and Opinion

In Grant Samuel's opinion the consideration and the terms and conditions of the Proposed Transactions are fair to Abano shareholders.

The Proposed New Employment Agreement

- Grant Samuel has reviewed the details of the remuneration provided for by the Proposed New Employment Agreement and believes they are fair to holders of equity securities other than those associated with Mr Clarke;

- if the Eldercare Sale Bonus is paid, Mr Clarke's remuneration for the year ending 31 May 2005 will amount to \$426,375, which represents 0.7% of Abano's current market capitalisation. This payment is small when compared to the Company's earnings for the last financial year;
- the Eldercare Sale Bonus has been proposed to reward Mr Clarke for achieving the successful sale and settlement of the Eldercare business. It is common practice for executives to receive such bonuses upon completing transactions that have a significant positive financial impact on a company. The sale price of Eldercare exceeded market expectations and realised a significant capital profit for Abano;
- the Eldercare Sale Bonus represents a small percentage of the capital profit realised through the sale of Eldercare;
- the implementation of the proposed salary increase will enable Mr Clarke to earn up to \$450,000 per annum (excluding the Incentive Plan Bonus) with effect from 1 July 2005. This represents an annual payment approximately equal to 0.8% of Abano's current market capitalisation. The cost to Abano is small when compared to current and forecast earnings;
- the annual salary provided for by the Proposed New Employment Agreement is at the upper end of the range stated in the advice from the Hay Group. If the Company's profits meet budget it is intended that Mr Clarke will receive a bonus payment of 25% of annual salary, which is below the 39% Hay Group benchmark. However, if the Company's profits exceed budget Mr Clarke may receive a bonus of up to 50% of annual salary;

The Proposed Incentive Plan and the Incentive Plan Bonus

- Grant Samuel has reviewed the terms and conditions of the Incentive Plan Bonus and believes they are fair to the holders of equity securities other than those associated with Mr Clarke and Mr Keys;
- the proposed amendment to Mr Keys' employment agreement and the inclusion of a provision in Mr Clarke's Proposed New Employment Agreement in relation to the payment of the Incentive Plan Bonus may result in the total amount payable to both executives in the 2008/2009 financial year exceeding 0.5% of the Average Market Capitalisation of Abano and possibly amounting to 1.2% in the case of Mr Clarke. However, these payments are small relative to the Company's current and forecast earnings;
- having reviewed the structure of the Proposed Incentive Plan, of which the Incentive Plan Bonuses form an integral part, it is Grant Samuel's opinion that the scheme is likely to achieve the objectives set out in the Notice of Meeting in the short term, providing the Company exercises its rights under the Call Option if the Performance Criteria are not met;
- in the context of the Proposed Incentive Plan the payment of a cash bonus will arguably have a greater negative impact on Abano than the dilutionary impact of the issue of shares which will only expand the issued capital by approximately 0.8%; and
- it can reasonably be expected that the Proposed Incentive Plan will incentivise the Executives to focus on earnings growth over the next three years which will be positive, but in theory at least earnings could be maximised in the short term at the expense of longer term growth.

Shareholders will have preference either in favour or against the concept of employee share ownership and bonus schemes and will decide for themselves whether or not it is necessary to incentivise and reward the Managing Director and Chief Financial Officer by adopting the Proposed Incentive Plan.

6 Qualifications, Declarations and Consents

6.1 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 300 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA and Rachael Butler, BSc.

6.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion of the Proposed Incentive Plan. Grant Samuel expressly disclaims any liability to any Abano shareholder who relies or purports to rely on this report for any other purpose and to any other party who relies or purports to rely on this report for any purpose.

Grant Samuel has prepared this report with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Notice of Meeting to be sent to shareholders of Abano in respect of the Proposed Incentive Plan. Grant Samuel does not accept any responsibility for the contents of the Notice of Meeting (except for this report).

6.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Abano that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Incentive Plan.

Grant Samuel considers itself to be independent in terms of the Listing Rules of the NZX.

Grant Samuel had no part in the formulation of the Proposed Transactions. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. Grant Samuel will receive no other benefit for the preparation of this report.

6.4 Information

Grant Samuel has obtained all the information, that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Abano and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Abano and contained within this report is sufficient to enable Abano shareholders to understand all relevant factors and make an informed decision, in respect of elements of the Proposed Transactions.

6.5 Declarations

Abano has agreed that to the extent permitted by law, it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this report. This indemnity will not apply in respect of the proportion of liability found by a court to be attributable to any conduct involving negligence or wilful misconduct by Grant Samuel. Abano has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct in which case Grant Samuel shall bear such costs.

Advance drafts of this report (and parts of it) were provided to Abano. Certain changes were made to this report as a result of the circulation of the draft report. However, there was no alteration to the methodology, conclusions or recommendations made to Abano shareholders as a result of issuing the drafts. Grant Samuel's terms of reference for its engagement did not contain any term, which materially restricted the scope of this report.

6.6 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the information to be sent to Abano shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Grant Samuel + Associates

GRANT SAMUEL & ASSOCIATES LIMITED

23 August 2005