AGED CARE SECTOR

OUR BUSINESS

The Aged Care sector, (operating as ElderCare New Zealand), has 13 residential care facilities with hospitals and rest homes throughout New Zealand, two with associated retirement village and/or apartment complexes. Our business focus is on providing quality residential care, mainly for those over 85 years of age.

Income

We derive 60 percent of our income from Government sources and 40 percent from private payment. Under the new public health structure, responsibility for the funding of aged care will move from the Ministry of Health to local District Health Boards (DHBs) from 1 October 2003. Residential care fees, excluding retirement village fees, are derived as follows:

LEVEL OF CARE	WEEKLY FEE MOH	WEEKLY FEE PRIVATE
Hospital	$901-$955	N/A
Rest home	$543-$594	$540-$636
Dementia	$676-$693	$676-$693

Figures exclude Goods and Services Tax

In preparation for the transition of funding to DHBs, the Ministry of Health has now granted a fee increase of approximately 2.5 percent, effective from 1 June 2003. This fee increase is reflected in the above figures.

Management

The Aged Care sector is managed by a senior team of business and healthcare professionals, in particular Craig Percy as general manager, Diana Spratt-Casas as director of nursing and Louise Bulkeley as education co-ordinator.

IN BRIEF

THE BUSINESS

- The ElderCare New Zealand brand will be retained for the Aged Care sector.
- ElderCare New Zealand operates 13 residential care facilities in New Zealand.
- The Aged Care sector employs 622 staff and operates 706 beds, 69 independent retirement villas and 35 serviced apartments.
- Fee income is a combination of private payment and Ministry of Health (MOH) Residential Care Subsidy.

THE MARKET

- There are 30,459 licensed beds distributed between 853 facilities in New Zealand.
- ElderCare New Zealand has 2.3 percent of the national market.

Craig has worked for ElderCare for over six years. Under his guidance, the sector has been restructured to focus on key market opportunities and has grown from one resthome in 1997 to 13 facilities today.

Before commencing employment with ElderCare in 2001, Diana was a senior manager of the Northern Regional Health Authority, where she was extensively involved in the Authority's policy setting for geriatric care in the region. She is responsible for the Aged Care sector's quality and business management programmes.

Louise's previous role was as care manager for Greenvalley Lodge. She has qualifications in adult education and is responsible for staff training and development for ElderCare.

OPERATIONAL PERFORMANCE AND OUR STAFF

The performance of core operations within the Aged Care sector was lifted from last year. Although an unexpected drop in occupancy rates early in the second half led to a softer than expected result, levels have since recovered and now run at a sustained daily average of 90 percent.

In the past 12 months, we have focused on organic growth opportunities within our Aged Care business and are currently expanding both our Whitianga and Takanini facilities. Extensions and renovations at Whitianga Continuing Care, one of Coromandel's most popular long term care facilities, will allow for a further 17 beds to meet demand from GP referrals and local residents. We also identified the demand for specialist dementia care in South Auckland and a 20 bed dementia unit is currently under construction at Takanini Lodge.

Other opportunities to upgrade or remodel existing facilities are also being evaluated, including investing in the remodelling of three of our older facilities – Eldon Lodge, Elmswood and Gracelands – in the new financial year to ensure we provide the best possible facilities for our residents.

Innovation and the search for and sharing of knowledge is one of Abano Healthcare's guiding principles and the Aged Care sector is currently undertaking a joint research study with the University of Auckland into improving quality of life and overall wellbeing for people in long term residential care. The study is a crucial step in ensuring ElderCare residents receive the highest possible standard of care and will be of significant interest to

- Most facilities are privately owned, with three publicly listed companies holding six percent of the market.
- Demand for aged care facilities is increasing due to an ageing population and changes in the asset testing regime.
- The total market size for age related disability support services is $843 million per annum.

FINANCIAL PERFORMANCE

$ MILLION	1999/2000	2000/2001	2001/2002	2002/2003
CORE REVENUE	18.8	21.6	22.8	23.3
EBITDA BEFORE NONCORE/UNUSUALS	3.8	3.8	4.0	4.7
KPIs				
Occupancy	86%	87%	92%	90%
Total beds	706	706	706	706
- Hospital	261	261	261	261
- Rest home	416	416	416	416
- Dementia	29	29	29	29

AGED CARE SECTOR CONT

the aged care industry. The results of the research will be incorporated into all ElderCare's systems and used in rest homes and hospitals throughout the country.

Ensuring our clients receive quality care is a key focus for the Aged Care sector and ISO9001 quality criteria have now been implemented across all our Aged Care facilities. In addition, our two remaining retirement village complexes are accredited by the Retirement Village Association. New Government policies will require any aged care facility to comply with the Health and Disability Sector Standards by 1 October 2004, and we are investing significant effort and resources to ensure this compliance is achieved well ahead of time.

Our staff continue to be our most important resource and the Aged Care sector has created the Caregivers Career Pathways programme, which has been adopted over all of our facilities. This programme seeks to train, educate and reward employees and is aimed at providing excellent services and therefore a higher level of job satisfaction and lower staff turnover.

A second and successful negotiation was undertaken with the New Zealand Nurses Organisation and the Service and Food Workers Union and a 14-month agreement has been reached which provides for a three percent increase across the board.

FACILITY	LOCATION	FULL TIME EQUIVALENTS	HOSPITAL BEDS	RESTHOME BEDS	DEMENTIA BEDS	TOTAL BEDS	UNDER CONSTRUCTION
Cargill Home	Invercargill	16		40		40	
Eldon Lodge	Paraparaumu	43	46	23	19	88	
Elmswood	Tauranga	20		41		41	
Gracelands	Hastings	51	42	41		83	
Greenvalley Lodge	Glenfield, Akl	21		52		52	
Lexham Gardens	Sandringham, Akl	19		46		46	
Otumarama	Nelson	33	38	12		50	
Riverview Lodge	New Plymouth	30	20	45		65	
St Johns Wood Trust	Taupo	28	19	28		47	
Takanini Lodge	Takanini, Akl	44	28	34	10	72	20*1
Te Mana	Birkenhead, Akl	35	42	6		48	
Westharbour Lodge	Westgate, Akl	19		40		40	
Whitianga	Whitianga	28	26	8		34	17*2
		387	**261**	**416**	**29**	**706**	

*1 Completion March 2004 – new dementia wing *2 Completion November 2003 – new hospital and day stay wing

THE MARKET

The demand for quality aged care solutions continues to grow due to an ageing population and planned changes to the Government's asset testing policies which will lower barriers to entry. In particular, there is a greater need for specialist residential care for older people (over 85 years of age) who are increasingly frail and require a higher level of medical input and care.

The profile of the Aged Care sector is also changing, as Government policy raises the entry criteria for a funded position in a nursing home. This has resulted in an increase in the age and dependence of our average client, whose tenure with us is reducing year on year from several years in the early nineties to several months currently. Therefore, the industry is moving towards a greater predominance of residential care hospitals rather than resthomes as the population is encouraged to stay at home and age in place.

The 'virtual retirement village' is a concept being developed by ElderCare in line with Government policies and a pilot scheme is currently being established in Whitianga this year.

Virtual Retirement Village

The concept builds on the growing demand for aged care services in the community. The ElderCare facility in the community acts as a centre point for the aged population, offering all the benefits of a retirement village to our clients in their own home.

The services will include home alarm monitoring for on-call home help, meals, laundry services, housekeeping and gardening help, as well as nursing help available in special circumstances.

This developing initiative will allow individuals in that community to age in place while ensuring a strong relationship builds up with the local ElderCare facility. When, inevitably, increasing dependency determines the logical next step to a high dependency hospital, the ElderCare facility in that community has an established relationship which makes a move much easier.

OUTLOOK

The aged care industry faces several key issues, including future funding levels, staff shortages, cost of compliance and repairs and maintenance on facilities to ensure they are of the highest standards. At ElderCare we are tackling these issues through lobbying for increased funding, the attraction and retention of higher quality staff with our Career Pathways programme and the continual monitoring and upgrade of all our facilities.

The Aged Care sector will remain one of Abano Healthcare's most stable revenue streams, and the continuing growth in demand offers sustained and secure returns with attractive investment opportunities. However, with increasing regulation and standards of care, and the cost squeeze facing this market, economies of scale will be of even greater importance in years ahead, with the average economic size of an operation increasing from 40 to 50 beds to over 60 beds.

Growth by acquisition and through expansion of existing facilities and services will continue to be a key focus in the near future. We will maintain our investigations into the acquisition of quality facilities, as well as opportunities to develop new community based services where there is a clear demand.

ElderCare is working closely with Government bodies, including the newly formed Primary Health Organisations, to ensure we are positioned to respond to the Government's Primary Health Care Strategy and offer services that meet public healthcare requirements and fulfil the needs of our communities in years ahead.

Craig Percy
General Manager Aged Care

Diana Spratt-Casas
Director of Nursing

Louise Bulkeley
Education Co-ordinator

REHABILITATION SECTOR

RANWORTH healthcare

Our people are here to help people

OUR BUSINESS

Ranworth Healthcare focuses on the rehabilitation and treatment of clients with brain injuries, with the objective of enabling people to become as independent as possible, and help them live rewarding and active lives. The business is the largest supplier of rehabilitation services to the ACC for the assessment and treatment of adults who have brain injuries.

The service is split into two areas: Residential support, where services are provided to clients in a homelike environment, and Community and Day Programme support, where clients are met by appointment or in an outcome-focused activity centre. We have a network of assessment and rehabilitation centres, residential facilities and community based services including Day Programmes throughout New Zealand, from the top of the North Island to the bottom of the South Island.

Key features of our service include:

- Teams of specialist health professionals
- Respite care (short stay and family relief)
- Residential assessment and rehabilitation (short, medium and long stay)
- Community assessment and rehabilitation
- Day Programmes
- Vocational Programmes
- One to one support

IN BRIEF

THE BUSINESS

- Ranworth Healthcare is New Zealand’s largest specialist residential and community assessment and rehabilitation service for people who have experienced a brain injury.
- The business has been operating since the mid-1990s and now employs 255 staff, who operate through 21 different facilities in 10 towns and cities across New Zealand, including nine specialist professionals on contract.
- Ranworth is a post acute residential support service, and currently has 103 beds in 12 facilities with a number of new facilities being considered.
- Eighty-three percent of funding is from ACC and 16 percent from MOH, with one percent from private referrals.

- High supervisory needs (24 hours)
- Community Integration (Training for Independence)

Income

We derive 83 percent of our funding from the ACC and 16 percent from MOH, with the remaining one percent from private referrals. Ranworth provides services for three key ACC contracts – Training for Independence, Active Rehabilitation and Residential Support.

Management

A decentralised business model has been implemented, with a focus on the active management of services and cost containment. The Auckland based support office ensures not only key support operationally but also places strong emphasis on developing existing and new services to the highest standards. The business is led by Graham Menary as general manager, with support from business development manager, John Clough and the senior management team.

Graham was appointed general manager for Ranworth Healthcare in November 2000, and has a background in business management, including the management of the Brain Injury Association in Christchurch. His goal is to produce a proactive, effective team that not only meets the needs and expectations of clients and funders, but exceeds them.

John Clough is a founding owner of Ranworth Healthcare and played an integral role in growing the company. He has a background in the rehabilitation industry, with 20 years experience as a psychiatric nurse. His role is to provide support to the regional management teams, focusing on the effectiveness of service delivery, as well as ensuring efficiencies are identified and maintained.

THE MARKET

- In 2001, ACC recorded 14,255 concussions and brain injuries in New Zealand.
- Assessment and treatment of these brain injuries is a specialist area.
- There are three other large groups providing services to ACC, and a number of sole practitioners.
- New Zealand's total brain injury treatment and support costs are in excess of $60 million p.a., with $20 million spent on residential care.

FINANCIAL PERFORMANCE

$ MILLION	1999/2000	2000/2001	2001/2002	2002/2003
CORE REVENUE	N/A	10.8	10.7	12.4
EBITDA BEFORE NONCORE/UNUSUALS	N/A	0.7	0.7	2.1
KPIs				
Occupancy	N/A	86%	87%	92%
Revenue/Occupied Bed day	N/A	$254	$245	$273

REHABILITATION SECTOR CONT

OPERATIONAL PERFORMANCE

The Rehabilitation sector has continued its trend of consistently improving performance for the past four half-year periods, with a particularly strong second half for the 2002/03 financial year.

The focus for Ranworth in the past 12 months has been to identify opportunities for its specialist skills and services in the rehabilitation industry, with the result that several new contracts have now been signed with the ACC – the newly developed Training for Independence contract and Active Rehabilitation and Residential Support contracts.

The Training for Independence contract enables Ranworth's team of health professionals to provide rehabilitation to people who have experienced a brain injury and who live independently in the community. The Active Rehabilitation contract and Residential Support contract were previously known as the Post Acute Residential Rehabilitation for Seriously Injured (PARRSI contract). The Active Rehabilitation contract focuses on short term (around 12 months) rehabilitation where the client's status is likely to change rapidly and the Residential Support contract has a focus on supporting clients, who need long term inputs and whose status is unlikely to change.

To meet continuing demand and to extend Ranworth's national offer, a new branch was opened in Wellington in August 2002. The office has been set up to fill a gap in the local community health service and provides community and day programme support.

There is a continuing shortage of experienced and qualified health professionals operating in the brain injury field, and Ranworth has committed itself to attracting and recruiting excellent staff, lifting the standard of care available in this area.

Ranworth is committed to providing quality care and is currently undergoing the accreditation process with HAPNZ (Health Accreditation Program New Zealand) and implementing a quality system. The business now holds the tertiary level Work Place Safety Management Practices Certificate with ACC, and all our facilities meet the Health and Disability Standards, which were first introduced in October 2002.

THE MARKET

The key causes of brain injury are road accidents, sports injuries, assaults, alcohol or substance abuse, and strokes. High risk age groups include children, young adults and the elderly, with statistics indicating that males aged 15-30 make up the largest group, followed by children under 15.

The treatment of brain injuries and rehabilitation is a specialist area with treatment divided between residential and community care. An estimated $20 million is spent by the ACC on residential care, with day clinics catering for up to several hundred clients per year.

RESIDENTIAL FACILITIES	LOCATION	FULL TIME EMPLOYEE EQUIVALENT	BEDS	AVERAGE OCCUPANCY
Castelmore	Whangarei	21	7	96
Goodwood Park Lodge	Auckland	1	5	98
Pinotage No 9 & 26	Auckland	12	10	98
The Highway	Auckland	11	8	94
Poutama Lodge	Auckland	8	7	102
Peachgrove	Hamilton	19	7	85
Te Whare	Hamilton	17	9	75
Bridge Home	Gisborne	20	14	102
Gladstone	Gisborne	16	14	98
Kauri House	Hastings	15	9	90
Russell Homestead	P'ston North	15	8	85
Ranworth House	Christchurch	7	5	66
Total		**162**	**103**	**92**

Graham Menary
General Manager Rehabilitation

John Clough
Business Development Manager Rehabilitation

OUTLOOK

There are significant opportunities for Ranworth Healthcare to expand into a number of other need areas where the skills of the clinical team are equally applicable, including the geriatric community and other serious physical injuries.

New service areas have already been identified, such as the provision of Alcohol and Drug services and Safe Care, and the management team will be looking to introduce these as revenue streams in the new financial year.

Our aim is to ensure that our high professional operating standards are always met, namely, we focus first and foremost on the health and well being of our clients. We will continue to liaise with other key operators involved in the field of brain injury rehabilitation, such as the Ministry of Health and ACC as well as staying at the forefront of international developments and breakthroughs in the treatment and care of our clients in order that our clients might benefit from these advances.

The Rehabilitation sector has a positive future and offers many opportunities to both expand our service into new areas, as well as increasing our services to the identified needs in the growing rehabilitation market.

DENTAL SECTOR

GEDDES DENTAL GROUP®
Geddes Dental Group NZ Ltd

OUR BUSINESS

Geddes Dental Group is Abano Healthcare's operating business in the dental care sector. It is Australasia's largest single dental group, and has a primary focus on providing general dentistry services in the Auckland region.

Income

Currently, 75 percent of fee income is derived from private payment and 25 percent from public funding for specific Government dental health initiatives. The aim is to increase patient funded payments to 80 percent through growth of the private market. Local DHBs are responsible for the negotiation of public dental health contracts and the distribution of funding for initiatives that include adolescent dental care and relief of pain.

Management

Geddes Dental Group is managed by founder Keith Pine, with support from Brett Hawkins as clinical director, Robin Cooper as operations manager and an executive team.

Keith is a Registered Clinical Dental Technician with advanced qualifications in Maxillo Facial Technology, a BSc. in Psychology and a MBA. He is chairman of the Dental Technicians' Board, an executive member of the New Zealand Institute of Dental Technologists, a member of AUT's dental advisory committee and a member of the Oral Health Advisory Group.

Brett has been with Geddes for nine years and was previously a director of the business.

IN BRIEF

THE BUSINESS

- Geddes Dental Group is Abano Healthcare's operating business in the Dental sector and was acquired on 31 October 2002
- Geddes Dental Group is Australasia's largest single ownership dental group and employs over 100 staff in 11 branches in Auckland, two branches in Melbourne, Australia and three mobile dental units.
- The majority of fee income is patient funded, except for Government funding for specific dental health initiatives.
- An average of 400 patients per day are seen by one of Geddes' 31 dentists.

He has ten years clinical experience, and holds a Bachelor of Arts degree as well as a Bachelor of Dental Science. He is responsible for the maintenance of clinical standards and dentists' compliance with codes of practice, and conducts clinical audits and provides training support and advice for our dentists.

Robin Cooper has responsibility for improving overall operational performance, including systems, HR policies and documentation. She holds a Diploma in Business Studies and an MBA, and has worked in a number of management consultancy and business development positions, as well as operations manager for a large medical laboratory.

OPERATIONAL PERFORMANCE

The acquisition of Geddes Dental Group was finalised on 31 October 2002, and the focus in the past seven months has been on the successful merger of the business model within the Abano Healthcare Group. Significant improvement in Geddes' operational effectiveness has been achieved but transitional costs resulted in the Dental sector being behind budget for the year. However, the business is now running to expectation for the new financial year.

To support the transition and merger of Geddes into the Abano Healthcare Group, a new management structure was implemented with the recruitment of an operations manager and a financial accountant to work within the sector.

Abano Healthcare's general manager business development, Richard Keys, and Geddes CEO, Keith Pine, undertook an intensive global market assessment in early 2003, travelling to the UK and USA to investigate successful and non-successful dental businesses. Discussions were held with key management personnel and dental industry spokespeople and the findings will help determine Geddes' ongoing business strategy in New Zealand and Australia.

In the past seven months, we have taken advantage of existing growth opportunities within the business,

THE MARKET

- The New Zealand dental market is worth approximately $360 million including the Government's school dental service and specialist dentistry.
- There are 1600 registered dentists in New Zealand, with 540 dentists in the Auckland area.
- Geddes has approximately 11.5 percent of the general dentistry market in Auckland.

FINANCIAL PERFORMANCE

$ MILLION	SEVEN MONTHS NOV 02 - MAY 03
CORE REVENUE	4.5
EBITDA BEFORE NONCORE/UNUSUALS	(0.2)

KPIs

Materials to revenue ratio	7.6%
Direct staff costs to revenue ratio	68%
Total number of dentists chairs	35

DENTAL SECTOR CONT

with the commissioning of additional chairs in two Auckland branches, a third mobile unit in February and the opening of a new branch at the University of Auckland.

Additional dental chairs have been installed at the Red Beach and Mt Roskill branches. The new chairs will help to meet current demand from local communities, as well as offering each practice the opportunity to increase the number of patients who can be cared for. In addition, a new hygienist has been welcomed into the group, and will be offering patients high quality cleaning and oral care services, as well as cosmetic tooth whitening.

A new branch was opened in May 2003 as part of the Health and Counselling service in the new student amenities complex at the University of Auckland. It is the first time a dental practice has been sited on a University campus in New Zealand and is a natural follow on from Geddes' successful mobile dental service, which has been providing dental treatments for Auckland University students for the past three years. The practice offers a full range of dental care services to students and University staff.

In line with Abano Healthcare's corporate philosophies of innovation, growth and high quality client treatment, a new IT platform has been approved.

THE MARKET

The New Zealand dental market is facing several significant trends, with an increase in cosmetic dentistry, a change in the demographics of patients requiring dental treatment and a shift in the level of available dental staff.

Although general dental care is still the main reason New Zealanders go to the dentist, the demand for cosmetic surgery is on the rise, predominantly from people aged between 25 and 40 years. This includes services such as teeth straightening, teeth whitening, cosmetic veneers and crown and bridgework.

The age of people requiring dental treatment is also changing with a decline in the demand for dentures as well as an improvement in the dental state of people aged under 35 years, due to fluoride in the public water supply. Lifestyle trends, such as easy access to energy and other sweetened drinks, an increase in the consumption of take out food and grazing between meals, have led to a decline in the dental health of adolescents.

A shortage of qualified dental staff is affecting the industry due to increased student fees, the high cost of investing in and establishing a dental practice and greater earning opportunities overseas. Many graduate dental students are now leaving New Zealand for employment in other countries and shortages are occurring across the country, particularly in rural areas.

Geddes carefully monitors market trends and is responding to the above trends with the implementation of targeted marketing and operational strategies. Patient services are tailored on a branch by branch basis to

BRANCH	DENTISTS	DENTAL ASSISTANTS	HYGIENIST	SUPPORT STAFF
Takapuna	4	5	0.5	6
New Lynn	3	4		3
Newmarket	2	2	0.5	1
Panmure	2	3		2
Manukau	2	2		2
Red Beach	2	2		1
Papakura	2	2		1
Henderson	1	2		2
Mt Roskill	3	3		1
Howick	1	3		1
Mobile 1	2	3		
Mobile 2	2	2		
Mobile 3	2	2		
University of Auckland	1	1		
Bulleen, Melbourne	1	1		
East Keillor, Melbourne	1	1		
Head office				14
	32	**38**	**1**	**34**

Keith Pine
CEO, Geddes Dental Group

Robin Cooper
Operations Manager

Brett Hawkins
Clinical Director

meet the demands of the local community; mobile services are being expanded to offer easily accessible dental care to adolescents at school, large corporations and industrial sites; and an active programme of recruitment for graduating dentists is in place to combat staff shortages.

OUTLOOK

Dentistry is a fragmented industry with significant opportunities for industry consolidation and corporatisation. The Dental sector remains a solid investment opportunity for Abano Healthcare with the ongoing identification of acquisition opportunities, particularly in the North Island.

Plans for the future include an increase in the total number of Geddes Dental Group branches, as well as greater numbers of dental chairs per practice. In addition, more dental staff and specialist services will be retained, improving the range and quality of services on offer.

The future focus for Abano Healthcare's Dental sector is on growth and the increase of patient funded income versus public funding. Contributions from the sector are expected to improve, however, the level of profit will remain modest as investment into organic growth and expansion by practice acquisition.

DIAGNOSTICS SECTOR

OUR BUSINESS

Abano Healthcare's Diagnostics sector consists of two medical laboratories serving the communities of Nelson/Marlborough and Wellington. These laboratories test specimens from patients referred by medical practitioners, specialists and other health professionals. Testing includes screening tests as well as specific tests taken for the diagnosis and management of disease processes. Commonly, these involve testing of blood, urine and swabs.

Income

We derive 90 percent of our income from DHBs and 10 percent from private payment. The Government devolved funding to local DHBs in the last year and each DHB now contracts for laboratory services in their regions. The last universal fee increase was in 1997, although additional tests have been added in the interim. The funding of cervical screening smears and related histology is now provided under a separate cervical screening contract.

Management

Dr Clint Teague was managing partner of the Diagnostics sector during the 2002/03 financial year and he is also an executive director of the Abano Healthcare board. From the beginning of the new financial year (1 June 2003), Dr Teague retired as CEO but will remain as a member of the Abano main board. He has had a long and distinguished career in medicine and has extensive knowledge and experience in the pathology industry.

IN BRIEF

THE BUSINESS

- The business comprises Medical Laboratory Wellington and Nelson Diagnostic Laboratory, which were acquired by Abano Healthcare on 31 January 2002.
- Community pathology laboratories provide testing services for patients as referred by health professionals.
- Medical Laboratory Wellington was founded in 1932 and is New Zealand's oldest community laboratory.
- The two practices employ 207 staff and offer a 24 hour, 7 day service, testing over 1,800 patients per day.
- Funding is 90 percent through DHBs and 10 percent by private payment.

The new management structure will consist of former partnership colleagues, Dr Andy Tie and Dr Peter Bethwaite as joint managing partners and Gerry Campbell as general manager.

Peter is a senior Histopathologist and Cytopathologist with Medical Laboratory Wellington. He also holds senior advisory positions with the Ministry of Health and serves on various committees of the Royal College of Pathologists of Australasia.

Andy is also a senior Histopathologist and Cytopathologist with Medical Laboratory Wellington. He is an elected member of the Specialists Committee of the New Zealand Medical Council and a member of the editorial board for the New Zealand Medical Journal.

Dr Ken Thomson, the longest serving partner in Medical Laboratory Wellington, will provide support to the management team. Ken is chairman of Wellington Pathology Limited and a specialist in forensic pathology. He is a past president of the Medical Council of New Zealand.

OPERATIONAL PERFORMANCE

This was the first full year of contribution by the Diagnostics sector, and a strong first half was followed by a decrease in patient numbers at the start of the second half of the financial year. This was a trend experienced by many laboratories around the country. However, levels recovered and the Diagnostics sector has improved its performance in recent months.

In the past 12 months, we have focused on improving capabilities within the laboratories through investment in both staff and technology. A new generation clinical analyser was installed in Medical Laboratory Wellington in October 2002, allowing the business to improve the service it offers to clinicians as well as reduce the amount of specimen handling by operators.

Of benefit to Abano Healthcare's Diagnostics businesses, has been the increase in Coroner's Autopsy fees, which were almost doubled from 31 March 2003. This was previously a service

THE MARKET

- The total community pathology laboratory market is worth $190 million per annum.
- Abano Healthcare holds 9.4 percent of the market.

FINANCIAL PERFORMANCE

$ MILLION	1999/2000	2000/2001	2001/2002	2002/2003
CORE REVENUE	N/A	N/A	6.1	17.9
EBITDA BEFORE NONCORE/UNUSUALS	N/A	N/A	0.8	1.9
KPIs				
Patients per day	N/A	N/A	1600	1800

DIAGNOSTICS SECTOR CONT

provided below cost to the community, but recognition of its value has taken fees to a more commercially acceptable level. The new cervical screening contract also resulted in an eight percent increase in fees for cervical smears, although statistical and quality assurance burdens for the laboratories have also increased.

Medical Laboratory Wellington is New Zealand's oldest community laboratory and is known for its industry leadership. In the last financial year, the business underwent assessment for the new ISO15189 accreditation standard for medical testing laboratories, and is the first in the world to achieve this qualification.

THE MARKET

The diagnostics area remains the sole service totally funded by the Government and where there is no direct consumer contribution. The community laboratory market is worth $190 million per annum, with the public hospital-based service about the same size. The main issue faced by the diagnostics market is an increasing demand for tests, with static or inadequate increases in funding. The Government may need to evaluate the need to ration tests or devolve some funding to users by way of part charging.

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. Six major groups serve the community laboratory market and Abano Healthcare holds 9.4 percent of this.

Competition is increasing both nationally and internationally for key trained staff, especially pathologists and cytotechnologists. Our Diagnostics sector plays a role in the training of such staff through placements for registrars and students, but still faces the need to recruit from the international market.

OUTLOOK

People aged over 65 years make up an increasingly large share of the demand for pathology services and there is a strong correlation between laboratory use and age. This indicates the demand for diagnostic services will continue to accelerate.

The key focus for Abano Healthcare's Diagnostics sector is to return to the internationally recognised growth range of five to six percent per annum. Continued investment in technology to improve services and maximise efficiencies is a primary focus. While acquisition opportunities will still be pursued, Abano Healthcare will concentrate on improving the existing operations while assessing the impact of changes under the evolving DHB structures.

Dr Clinton Teague
Medical Director

Dr Andy Tie
Managing Partner

Dr Peter Bethwaite
Managing Partner

Dr Ken Thomson
Principal Pathologist