

# Abano Healthcare Six Month Report to Shareholders 2009

For the six month period  
to 30 November 2008



## COMPANY STRUCTURE



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## SIX MONTH HIGHLIGHTS

- Increased revenues to \$86.1 million, up 44% on the same period last year
- Produced EBITDA of \$14.4 million and NPAT of \$4.1 million, increases of 31% and 8% respectively, on the same period last year
- Acquired seven dental practices in New Zealand, increasing the Lumino The Dentists network to 40 practices nationwide
- Entered the Australian dental market through Dental Partners and grew the network to 15 practices
- Opened 11 audiology clinics in New Zealand, taking Bay Audiology to 63 clinics nationally
- Continued growth of Bay Audio network in Australia with 51 permanent and satellite clinics now in Southern Queensland and Northern New South Wales
- Acquired specialist radiology business, Insight Radiology, in New Zealand
- Opened second Ascot Radiology clinic and invested in new MRI in the existing clinic
- Declared a fully imputed interim dividend for 2009 of 9c per share, maintaining the Group's policy of distributing 50 percent of NPAT

### FOLLOWING PERIOD END

- Entered the Asian audiology market with a small initial investment into the acquisition of five audiology clinics in Singapore and two clinics in Hong Kong
- Acquired two dental clinics in New Zealand, adding to the Lumino Dental network
- Bay Audio in Australia opened one further clinic
- Announced the appointment of Mr Danny Chan as an independent director and Mr Peter Hutson as an executive director and the resignation of Mr Graeme Edmond from the board

	SIX MONTHS TO 30 NOVEMBER 2008 [\$M]	SIX MONTHS TO 30 NOVEMBER 2007 [\$M]	PERCENTAGE CHANGE
Revenues	86.1	59.6	44%
EBITDA	14.4	11.0	31%
Net Profit After Tax	4.1	3.8	8%
Interim Dividend	9c per share	*13c per share	*13%
Earnings Per Share (cents)	17.74	16.44	8*

\*Nine month interim dividend paid in 2008. If adjusted for six month period, dividend was effectively 8c per share.

## CHAIRMAN'S REPORT

Abano Healthcare Group made good progress in the first six months of the 2009 financial year, with a solid performance and pleasing results in the face of a deteriorating international economic climate.

In the period, we reported revenues of \$86.1 million, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$14.4 million and Net Profit After Tax (NPAT) of \$4.1 million, all ahead of the same period last year.

All sectors delivered satisfactory results with good operating profits. However, the consolidated margin at EBITDA decreased by 1.8 percent to 16.7 percent, following accelerated infrastructure investment for future growth in selected areas. This included a new clinic at Ascot Radiology with a second MRI and digital breast imaging modalities which was opened in July 2008.

In Audiology, additional staff and marketing costs were incurred due to the opening of a number of new clinics in New Zealand and Australia. Pleasingly, dental margins in New Zealand continued to improve as previously advised and the Australian dental business showed good progress with improving margins and solid profitability, after only four months of contribution.

Although some planned and originally forecast acquisitions have taken longer than expected to settle, acquisition activity and opportunity remained strong during the first six months of the 2009 financial year. A number of investments and initiatives which were put in place will only be apparent in the second half, with a full year's contribution only seen in the 2010 financial year.

Highlights during the six month period included our entry into the Australian dental market in August 2008 through Dental Partners, the acquisition of a specialist Auckland based radiology business in November 2008 and the announcement of our planned entry into the Asian audiology market, which settled in December 2008.

In addition, seven dental practices were acquired in New Zealand including Proudmouth, the largest private group practice in New Zealand, which employs over 16 dentists

## CHAIRMAN'S REPORT CONTINUED

and six hygienists. Bay Audiology also opened a further 11 new clinics around New Zealand in the same period.

In line with the growth of our businesses, we have been systematically improving and enhancing our information systems and consolidating technology in recent months. This ongoing investment, along with our experienced clinical teams, management and support staff, positions our businesses well for the future and for the opportunities and challenges ahead.

### LOOKING AHEAD

The turmoil from the global financial crisis continues to spill over into the New Zealand economy, with sagging business confidence. While Christmas holiday trading was strong, all commentators are now forecasting falls in consumer spending which will present a material risk for all New Zealand businesses.

In Australia, there is a late but growing awareness that there is indeed a local and world wide recession and in Asia there has been a marked slow down in consumer retail activity with "caution" and "consumer wariness" being the operative words.

Healthcare is reasonably protected from these economic changes, as many healthcare decisions cannot be delayed or put on hold. However, the sheer size and scale of this growing world wide recession means there are some areas of private discretionary healthcare spending which we now believe are likely to be affected.

We are very mindful that some of our customers, clients or patients could be affected through job losses, reduced income and growing personal financial uncertainty and we may therefore see a slowing down in demand for discretionary healthcare services over the next period of time.

In these extraordinary times, a conservative and cautious approach is required. Our strategy remains to focus on those healthcare sectors where there is a proven track record and identified opportunities for continued profitable growth, particularly in dental, audiology and radiology. We will be making sure we continue to recognise the changing circumstances of our customers and businesses as we adapt and grow our business in a proactive manner.

Abano remains in good financial shape with long term banking arrangements in place with ASB Bank in New Zealand as well as its parent, CBA in Australia. While we have sufficient funding and facilities in place to meet our immediate strategic growth and operating objectives, we will be reviewing our debt equity ratios going forward to ensure we maintain a prudent and appropriate ratio.

As we enter the next period, we have a very wary eye on the deteriorating economy in the Asia Pacific region. While December's demand remained buoyant, we have yet to see the results of the January and February holiday trading period. As we have done in previous years, once trading from this holiday period has been assessed, we will be providing further market guidance for the full year to 31 May 2009.



Alison Paterson  
Chairman

# Abano Healthcare Interim Financial Statements

For the six month period  
to 30 November 2008

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 November 2008 (unaudited)

	Note	NOV 2008 \$000	NOV 2007 \$000
<b>Continuing operations</b>			
Sales		86,095	59,644
Changes in inventories		(8,170)	(7,936)
Patient consumables		(6,469)	(5,689)
Employee benefits		(42,295)	(25,084)
Depreciation and amortisation expenses		(2,497)	(2,068)
Occupancy costs		(5,187)	(3,314)
Other operating expenses		(9,686)	(6,732)
Other operating income		-	88
<b>Operating profit</b>	2	<b>11,791</b>	<b>8,909</b>
Net financing costs		(2,594)	(995)
Amortisation of put option fair value		(1,246)	(860)
Share of profit of associates		115	117
<b>Profit before income tax</b>		<b>8,066</b>	<b>7,171</b>
Income tax expense		(3,148)	(2,961)
<b>Profit for the period</b>		<b>4,918</b>	<b>4,210</b>
<b>Attributable to</b>			
Equity holders of the company		4,918	4,210
Minority interest		(832)	(425)
		<b>4,086</b>	<b>3,785</b>
<b>Earnings per share</b>		<b>17.74</b>	<b>16.44</b>

## CONSOLIDATED BALANCE SHEET

As at 30 November 2008 (unaudited)

	Note	NOV 2008 \$000	NOV 2007 \$000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	29,913	14,736
Intangible assets		143,698	110,003
Investments in associates		690	508
Derivative financial instruments		-	223
Trade and other receivables		1,103	880
Deferred tax assets		1,583	965
<b>Total non-current assets</b>		<b>176,987</b>	<b>127,315</b>
<b>Current assets</b>			
Cash and cash equivalents		9,944	4,253
Trade and other receivables		24,214	16,752
Inventories		9,055	5,069
Derivative financial instruments		56	-
<b>Total current assets</b>		<b>43,269</b>	<b>26,074</b>
<b>Total assets</b>		<b>220,256</b>	<b>153,389</b>
<b>EQUITY</b>			
Share capital		54,170	54,140
Retained earnings (accumulated losses)		2,747	(1,113)
Cash Flow Hedge Reserve		(1,040)	-
Foreign Currency Translation Reserve		570	(66)
<b>Total equity attributable to equity holders of the parent</b>		<b>56,447</b>	<b>52,961</b>
Minority interest		2,224	782
<b>Total equity</b>		<b>58,671</b>	<b>53,743</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	5	80,912	30,050
Trade and other payables		3,821	1,346
Derivative financial instruments		1,583	-
Deferred tax liabilities		157	-
Deferred acquisition consideration		43,249	44,974
<b>Total non-current liabilities</b>		<b>129,722</b>	<b>76,370</b>
<b>Current liabilities</b>			
Borrowings		323	1,666
Provisions		56	56
Derivative financial instruments		5	28
Deferred acquisition consideration		2,188	1,384
Current income tax liabilities		974	774
Trade and other payables		28,317	19,368
<b>Total current liabilities</b>		<b>31,863</b>	<b>23,276</b>
<b>Total liabilities</b>		<b>161,585</b>	<b>99,646</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>220,256</b>	<b>153,389</b>
<b>Net assets per security</b>		<b>\$2.55</b>	<b>\$2.34</b>
<b>Net tangible assets per security</b>		<b>(\$3.70)</b>	<b>(\$2.45)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2008 (unaudited)

	SHARE CAPITAL \$000	TREASURY SHARES \$000	FOREIGN EXCHANGE TRANSLATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
<b>Balance at 1 June 2007</b>	<b>54,547</b>	<b>(482)</b>	-	-	<b>(2,105)</b>	<b>51,960</b>
Profit for the period					4,210	<b>4,210</b>
Dividends Paid					(2,793)	<b>(2,793)</b>
Shares options exercised	60					<b>60</b>
Executive share scheme	15					<b>15</b>
Foreign Currency translation movement			(66)			<b>(66)</b>
Gain attributable to Minority Interest					(425)	<b>(425)</b>
<b>Balance at 30 November 2007</b>	<b>54,622</b>	<b>(482)</b>	<b>(66)</b>	-	<b>(1,113)</b>	<b>52,961</b>
<b>Balance at 1 June 2008</b>	<b>54,637</b>	<b>(482)</b>	<b>(31)</b>	-	<b>(170)</b>	<b>53,954</b>
Profit for the period					4,918	<b>4,918</b>
Dividends Paid					(1,169)	<b>(1,169)</b>
Shares options exercised						-
Executive share scheme	15					<b>15</b>
Foreign Currency translation movement			601			<b>601</b>
Cash Flow Hedge movement				(1,040)		<b>(1,040)</b>
Gain attributable to Minority Interest					(832)	<b>(832)</b>
<b>Balance at 30 November 2008</b>	<b>54,652</b>	<b>(482)</b>	<b>570</b>	<b>(1,040)</b>	<b>2,747</b>	<b>56,447</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 November 2008 (unaudited)

	Note	NOV 2008 \$000	NOV 2007 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		84,323	59,472
Payments to suppliers and employees		(69,671)	(50,484)
Interest received		203	356
Interest paid		(2,668)	(1,249)
Income tax paid		(1,458)	(1,805)
<b>Net cash generated from operating activities</b>	8	<b>10,738</b>	<b>6,290</b>
<b>Cash flows from investing activities</b>			
Sale of property, plant and equipment		19	203
Sale of subsidiaries/businesses		16	87
Purchase of property, plant and equipment		(7,006)	(5,119)
Purchase of subsidiaries/businesses		(41,532)	(10,155)
Cash balances acquired		-	10
Other investment income		(23)	(373)
Dividends paid to minority interest shareholders		(139)	(217)
<b>Net cash used in investing activities</b>		<b>(48,665)</b>	<b>(15,564)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		47,564	13,563
Settlement of borrowings		(889)	(739)
Dividends paid		(1,169)	(2,575)
Equity raised		-	60
<b>Net cash used in financing activities</b>		<b>45,506</b>	<b>10,309</b>
<b>Net increase/(decrease) in cash held</b>		<b>7,579</b>	<b>1,035</b>
Cash at beginning of the period		1,528	2,671
<b>Cash at end of period</b>		<b>9,107</b>	<b>3,706</b>
<b>Cash comprises</b>			
Cash at bank		9,944	4,253
Bank overdrafts		(226)	(547)
Exchange loss on net assets held by foreign subsidiaries		(611)	-
		<b>9,107</b>	<b>3,706</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Statement of Accounting Policies

The accounting policies used in the preparation of the interim financial statements are consistent with those adopted in the previous annual report.

The interim financial statements are prepared in accordance with NZ IAS 34: Interim Financial Reporting.

### 2. Segment Information

	AUDIOLOGY		REHABILITATION		DIAGNOSTICS		DENTAL		TOTAL	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Segment Revenue</b>										
Segment	28,700	20,562	10,865	9,566	17,547	16,847	29,098	12,786	<b>86,210</b>	<b>59,761</b>
<b>Operating Result <sup>(1)</sup></b>										
Segment	6,746	4,760	1,549	1,410	2,629	2,746	1,745	525	<b>12,669</b>	<b>9,441</b>
Unallocated									<b>(878)</b>	<b>(532)</b>
<b>Operating result (before interest and taxation)</b>									<b>11,791</b>	<b>8,909</b>
<b>Depreciation</b>	612	658	168	121	746	758	904	466	2,430	2,003
Unallocated									67	65
									<b>2,497</b>	<b>2,068</b>

(1) Operating results include the allocation of attributable corporate overheads. Unallocated costs are specific to the Company.

### 3. Property, plant and equipment

During the period to 30 November 2008 the Group acquired property, plant and equipment with a cost of \$3,874,996. An additional \$7,116,415 of property, plant and equipment was acquired as part of business acquisitions during the period.

### 4. Investments in subsidiaries

On 10 June 2008, the Group acquired a 70% shareholding in Dental Partners Pty Limited, an Australian dental business.

On 14 November 2008, the Group acquired 80% of Insight Radiology Limited, a specialist radiology practice in Auckland.

#### Acquisition of businesses

During the period to 30 November 2008 the Group acquired the following businesses for a total cash consideration of \$35.9m.

Tweed Dental Centre (Northern NSW)	26 Jun 2008
Coyne Dental (Gold Coast)	26 Jun 2008
Lynch Dental (Sydney)	27 Jun 2008
Coastal Orthodontics (Northern NSW)	27 Jun 2008
The Family Dental Centre (Sydney)	27 Jun 2008
Totally Teeth (Gold Coast)	1 Jul 2008
Dental Solutions (Sunshine Coast)	1 Jul 2008
Dental Designs (Auckland)	1 Jul 2008

## NOTES TO THE FINANCIAL STATEMENTS

Dr Derry Rogers (Melbourne)	2 Jul 2008
The Dental Centre (Brisbane)	3 Jul 2008
Manly Dental (Whangaparaoa)	31 Jul 2008
Kings Hearing (Queensland)	7 Aug 2008
Torbay Dental (Auckland)	31 Aug 2008
Proudmouth (Auckland)	31 Aug 2008
Greenwood Dental (Sydney)	26 Sep 2008
Kidz Teeth (Auckland)	30 Sep 2008
Modern Dentistry (Canberra)	10 Oct 2008
Dr Boyle (Canberra)	29 Oct 2008
Glenelg Dental (Adelaide)	14 Nov 2008
Allenby Gardens Dental (Adelaide)	14 Nov 2008
Dr Frame (Sydney)	28 Nov 2008
City Dental Tauranga (Tauranga)	30 Nov 2008

#### Summary of the effect of the acquisitions:

	DENTAL	AUDIOLOGY	TOTAL
<b>Fair value of net assets acquired:</b>			
Current assets	1,264,520	88,478	1,352,998
Current liabilities	(309,103)	(511,596)	(820,699)
Non-current assets	6,928,443	187,972	7,116,415
Acquisition costs	829,722	269,705	1,099,427
Goodwill on acquisition	23,730,897	3,415,010	27,145,907
<b>Consideration paid</b>	<b>32,444,479</b>	<b>3,449,569</b>	<b>35,894,048</b>
Deferred acquisition consideration	3,694,355	-	3,694,355
<b>Total Consideration</b>	<b>36,138,834</b>	<b>3,449,569</b>	<b>39,588,403</b>
Goodwill on acquisition	23,730,897	3,415,010	27,145,907
Deferred acquisition consideration	3,694,355	-	3,694,355
Acquisition costs	829,722	269,705	1,099,427
<b>Total goodwill recognised</b>	<b>28,254,974</b>	<b>3,684,715</b>	<b>31,939,689</b>

The businesses acquired have contributed \$2,308,162 to the Group operating result in the period from their acquisition date to 30 November 2008.

Management do not believe that it is possible to reasonably estimate what the revenue and profit from the business combination would have been if they had been part of the Group from the beginning of the period.

### 5. Borrowings

The Group's net bank debt as at 30 November 2008 was \$70.5m. (30 November 2007: \$26.3m)

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Subsequent events / Related-Party Information

In December 2008, the Group acquired a dental practice in New Zealand, four audiology clinics in Singapore and two audiology clinics in Malaysia.

In February 2009 the Group acquired a dental practice in New Zealand and an audiology clinic in Singapore.

During December the Board announced the appointment of Mr Danny Chan as an independent director. Mr Chan replaced Graeme Edmond who retired at the end of December 2008.

At the Group's AGM in November 2008 Mr Peter Hutson was appointed as an executive director of Abano. Mr Hutson is a founder, minority shareholder and employee of Bay Audiology Limited. He also has interests in Healthcare Industry Limited which has a 19.9% shareholding in Abano.

On 25 November 2008 shareholders approved an incentive share scheme and an outperformance share scheme which provide for certain executives to be issued with shares, for which the Company provides an interest free loan. 203,097 share scheme shares were issued on 1 December 2008, at \$4.52 per share, being the volume weighted average closing price over the previous 20 trading days. A loan of \$918,000 was provided to the executives on this date to acquire the shares. These shares will only vest in the Executive in 2011 if Abano's earnings per share targets over this period are met and the Executive remains in Abano's employment during this period.

### 7. General Information

The Group is a profit-orientated limited liability entity incorporated and domiciled in New Zealand.

### 8. Reconciliation of Operating Cash Flows

For the six months ended 30 November 2008 (unaudited)

	NOV 2008 \$000	NOV 2007 \$000
<b>Profit for the period</b>	<b>4,086</b>	<b>3,785</b>
<b>Non-cash items:</b>		
Depreciation and amortisation	2,497	2,068
Utilisation / (recognition) of deferred tax asset	547	30
Amortisation of put option fair value	1,246	860
Fair value movement on derivatives	110	41
Executive compensation expense	15	15
Share of surplus retained by associates	832	425
	5,247	3,439
<b>Movement in working capital:</b>		
(Increase)/decrease in trade and other receivables	(6,068)	(4,394)
(Decrease)/increase in trade and other payables	7,609	3,665
(Decrease)/increase in deferred income	(56)	(57)
	(1,485)	(786)
<b>Items classified as investing activities:</b>		
Realised (gain)/loss on sale of property, plant and equipment	35	56
Realised (gain)/loss on sale of subsidiaries	-	(87)
Other investment income	(115)	(117)
	(80)	(148)
<b>Net cash flows from operating activities</b>	<b>10,738</b>	<b>6,290</b>

## DIRECTORY

### DIRECTORS

Alison Mae Paterson  
Chairman  
Appointed 16 October 2002

Trevor David Janes  
Deputy chairman  
Appointed 23 September 2005

Alan William Clarke  
Appointed 31 October 2001

Philip Samuel Newland  
Appointed 31 October 2001

Susan Marie Paterson  
Appointed 23 September 2005

Peter Lionel Hutson  
Appointed 25 November 2008

Danny Chan  
Appointed 19 December 2008

Graeme David Edmond  
Resigned 31 December 2008

### AUDIT COMMITTEE

Trevor Janes (chairman),  
Alison Paterson, Danny Chan

### REMUNERATION COMMITTEE

Susan Paterson (chairman),  
Alison Paterson, Philip Newland

### NOMINATION COMMITTEE

All board members

### REGISTERED OFFICE AND ADDRESS FOR SERVICE

Level 16  
West Plaza Building  
3-7 Albert St, Auckland

### AUDITORS

PricewaterhouseCoopers  
PricewaterhouseCoopers Tower  
188 Quay St, Auckland

### BANKERS

ASB Bank Limited  
135 Albert St, Auckland

Commonwealth Bank of Australia  
240 Queen St  
Brisbane, Australia

### SOLICITORS

Buddle Findlay  
PricewaterhouseCoopers Tower  
188 Quay St, Auckland

### SHARE REGISTRAR

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