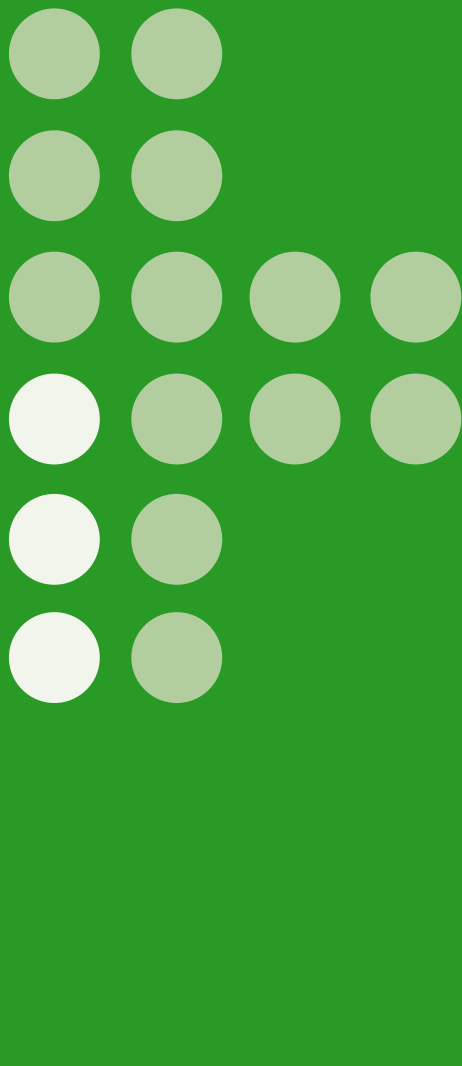


# Abano Healthcare Annual Report

2004



# GOVERNANCE

## ROLE OF THE BOARD

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

The board's key responsibilities are to formulate the strategic direction of the Group, to oversee the financial and operational controls of the business and to manage appropriate risk management strategies and policies.

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

We have been following closely the development of the Principles for Corporate Governance, drafted and released by the New Zealand Securities Commission. We believe that our current governance policies and practices largely adhere to these guidelines, however, a special emphasis is now being placed to ensure that we continue to operate within the best practice guidelines set out by the Commission. We have identified in our reporting, those areas where the principles are now being applied to our corporate governance practices.

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

## ETHICAL CONDUCT

**Principle 1: Directors should observe and foster high ethical standards.**

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

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

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

## BOARD MEMBERSHIP

Principle 2: There should be a balance of independence, skills, knowledge, experience and perspectives among directors so that the board works effectively.

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

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

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

In accordance with the Company's Constitution, Clinton Teague and Alison Paterson retired and were re-elected at the 2003 annual meeting. The board now consists of:

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

Profiles of board members are shown on pages 38 and 39.

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

## COMMITTEES

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

To assist directors in carrying out their duties, the board has two standing committees, comprising only non-executive directors, to focus on specific areas of responsibility - the audit committee and the remuneration committee. The committees meet as required and have terms of reference, which are approved and reviewed by the board annually. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

### Audit Committee

Principle 4: The board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

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

Although the board as a whole is responsible for the accuracy and relevance of the Group's financial statements, the audit committee provides an additional, and more specialised, oversight of the financial

## GOVERNANCE CONT

reporting process. The committee also reviews operation of internal controls and the quality and cost of the audit undertaken by the Group's external auditors.

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

The audit committee members are M.G. Kidd - chairman, J.M.R Syme and A.M. Paterson and it met five times in the past financial year. Whilst not a member of the audit committee, all meetings are also attended by managing director, Alan Clarke. In addition, the external auditor attends meetings of the audit committee.

### Remuneration Committee

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

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

## REMUNERATION OF DIRECTORS

**Principle 5: The remuneration of directors and executives should be transparent, fair and reasonable.**

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

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

Under the Company's Constitution and with shareholder approval, the Company may pay a retirement sum of up to three years of director's fees.

## REMUNERATION OF EXECUTIVES

Executive remuneration comprises a fixed base salary and a variable bonus of up to 25 percent of base salary paid annually. Bonuses are paid against targets agreed with executives at the commencement of the year, and are based on profitability, growth and personal objectives. Once the level of bonus achieved has been determined the executive is given the choice of taking the bonus in the form of cash or ordinary shares.

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

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

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

The board is also reviewing a long term incentive scheme that will further secure these key executives to all shareholder return objectives. Details of directors and executives' remuneration and entitlements are detailed under Remuneration of Employees information on page 72.

## MANAGING RISK

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

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

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

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

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

The audit committee provides an overall view of the risk profile of the Group and is responsible for monitoring corporate risk assessment processes.

## MEETINGS HELD AND ATTENDED

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

	Jim Syme	Maurice Kidd	Phil Newland	Alison Paterson	Clint Teague	Alan Clarke
Full board	14	14	13	12	13	14
Remuneration	5	-	5	5	-	5
Audit	5	5	-	5	-	4
Planning	1	1	1	1	1	1

## DISCLOSURE OF INTERESTS BY DIRECTORS

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

Details of all matters entered into the interests register by individual directors are outlined on pages 70-71 of this report. The declaration of an interest by a director in a particular entity as a shareholder or director serves notice that the director may benefit from any transaction between the Company or the Group and the identified entities.

## DIRECTORS' SHARE DEALINGS

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

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### DIRECTORS' USE OF INFORMATION

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

### INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

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

### DIRECTORS' SELF EVALUATION

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

### AUDITOR INDEPENDENCE

Principle 7: The board should ensure the quality and independence of the external audit process.

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

The audit committee reviews the quality and cost of the audit undertaken by the Group's external auditors.

### SHAREHOLDER REPORTING

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

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

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

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

### STAKEHOLDERS INTERESTS

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

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

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

## **SUBSEQUENT EVENTS**

There is no material change to the accounts as presented.

## **TREASURY POLICY AND INTEREST RATE RISK MANAGEMENT**

In September 2002, the board adopted a treasury policy with regards to the management of interest rate risk. The policy includes delegated authority controls, a minimum level of 60 percent and maximum of 90 percent fixed rate debt and a targeted maturity profile for fixed rate debt swap agreements. At 31 May 2004, 60 percent of the Company's bank debt was covered by fixed rate swap agreements, details of which are included on page 60. The policy also specifies a maturity profile for fixed rate debt that is progressively being implemented to achieve compliance by 31 December 2004.