

CHAIRMAN'S REPORT

Year in review

We are pleased to announce the renaming of ElderCare New Zealand Limited as Abano Healthcare Group Limited.

The Group remains the same in all aspects, apart from the name change, which simply marks our final move away from our roots as a retirement village property developer to that of a healthcare and medical services provider.

The board has pleasure in presenting the annual report for the financial year ended 31 May 2003, to shareholders.

During the financial year, Abano Healthcare achieved a promised return to profitability and met improved forecasts, with the help of a one off gain from the sale of Regents Park and through the recognition of the Group's deferred tax position, following our return to sustainable profits. Core operational performance showed positive increases over previous years at revenue, EBITDA and EBIT.



FINANCIAL PERFORMANCE

The Group's return to core profitability was further boosted by the inclusion of a one off gain of \$0.93 million from the sale of the Regents Park property, and \$0.39 million by recognition of the Group's deferred tax position, including the deferred tax asset relating to non-quarantined tax losses, which the board believes will be utilised now that the Group has returned to sustainable profitability.

Overall, the Group reported revenues of \$58.3 million (last year \$40.4 million), EBITDA of \$9.4 million (last year \$3.7 million) and a Net Profit After Tax of \$2.0 million (last year a loss of \$2.8 million).

Before the recognition of the one off gains, the return to profitability was underpinned by an improving performance of core businesses. Core revenue was \$58.3 million, an increase of 44 percent on the previous year of \$40.4 million. EBITDA before noncore/unusuals was \$8.5 million, an increase from \$5.5 million last year and EBIT before noncore/unusuals improved to \$5.2 million from \$3.2 million last year.

The final significant non core assets identified in the restructuring programme have now been sold, including the properties at Te Mata, St Lukes and the Regents Park development in West Auckland. We have one property in Wanganui for sale for \$0.2 million.

The Regents Park development site was successfully sold in a buoyant property market and settled in early May, for \$3.22 million, resulting in a gain of \$0.93 million, with cash proceeds applied to reducing Group debt.

ACQUISITIONS

In November 2002, Abano Healthcare entered the Dental market, with the acquisition of Geddes Dental Group. This strengthened our position as New Zealand's leading listed healthcare and medical services provider, with the Group now operating in four sectors - Aged Care, Diagnostics, Rehabilitation and Dental. Further information on the new Dental sector is provided on pages 24 to 27.

The Group follows an acquisitions strategy which identifies investments that are compatible at both corporate and operational levels, and where there is sustainable cash flow generation and profitability. All investments must enhance shareholder value and achieve a sustainable improvement in Abano Healthcare's financial position. Further information on our acquisition strategy is available at www.abanohealthcare.co.nz

THE BOARD AND GOVERNANCE

In accordance with the Company's Constitution, all members of the board retired and were re-elected at the 2002 annual meeting. In addition, Alison Paterson was appointed as an additional independent director in October 2002. The board now consists of myself as independent chairman, Alison Paterson as independent director, Phil Newland and Maurice Kidd from Cullen Investments Limited as non-executive directors, Alan Clarke as managing director and Clint Teague as executive medical director.

CHAIRMAN'S REPORT CONT

We are delighted to have someone of Alison's calibre and experience join us on the board. Her depth of knowledge in the governance of a number of public and private companies, and her understanding of the healthcare market will add considerable value to the implementation of our strategy. Further information on board directors is available on pages 38 to 39.

SHARE CHANGES

The number of potential future shares on issue was reduced by over 49 million, through repayment of convertible notes and expiry of share options.

In November 2002, the independent directors elected to repay \$2.5 million, being 50 percent of the original principal value, of the Cullen Investments Limited convertible note, rather than converting it to shares.

After careful consideration, and discussion with the original vendors of Medical Laboratory Wellington, the first tranche of Medlab convertible notes was repaid in cash on 31 January 2003.

In addition, 31 million options to acquire further shares in Abano Healthcare, held by Cullen Investments Limited, related parties and David Lowry, expired on 31 March 2003.

At the 2002 annual meeting, a resolution was passed to establish a three-year scheme pursuant to which the board could issue shares in consideration of the monetary remuneration that Alan Clarke is entitled to receive by way of a bonus. He was allocated 204,973 shares in November 2002 under this scheme.

DIVIDEND

Our current policy is that no dividend will be paid. This policy will continue to be reviewed each year against our progress.

COMMUNICATIONS

The Company has increased communications with key stakeholders and now produces and distributes a bi-annual newsletter to provide quarterly updates between the annual and half year reports.

To enable interested parties to more easily access company information and announcements, and in line with the new company name, the Group's website has been redesigned. Our policy is to post all company announcements on the website within two hours of their release. Visitors to the site will also be able to download company documents, and view information on the Company's strategies, management and the healthcare market. We hope this is of benefit to you and welcome your thoughts on any further improvements for the future www.abanohealthcare.co.nz

OUR PEOPLE

As a healthcare and medical services provider, our people are not only the face of our Company but also our most important asset. Amongst our team of 1,194 staff are many passionate and dedicated individuals whose expertise and enthusiasm are a major reason for our growing success.

In recognition of the importance of our people to the Group, we have provided more detailed information on our staff and the Company's human resources strategies on pages 31 to 33 of this report.

LONG TERM STRATEGY AND OUTLOOK

The board is committed to our established growth policy. Since 2000, we have expanded by over 30 percent compounding revenue growth each year, through the acquisition of new businesses, entry into new healthcare and medical sectors and the organic growth of existing sectors.

The Company has achieved a return to profit for the financial year ended 31 May 2003. This is a good start and we anticipate another year of growth in operations, earnings and improving profitability.

Our 2003 annual meeting will be held on Wednesday 26 November 2003, in the Goldstar Room, Ellerslie Convention Centre from 10.30am. We look forward to seeing you there.



Jim Syme

CHAIRMAN