

Abano Healthcare

Financial Statements



DIRECTOR'S RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 May 2006 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors have pleasure in presenting the financial statements of Abano Healthcare Group Limited, set out on pages 44 to 77, for the year ended 31 May 2006.

The financial statements presented on the following pages were authorised for issue on 28 July 2006.

For and on behalf of the Board



Jim Syme
CHAIRMAN

28 July 2006



Alan Clarke
MANAGING DIRECTOR

AUDITORS' REPORT

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TO THE SHAREHOLDERS OF ABANO HEALTHCARE GROUP LIMITED

We have audited the financial statements on pages 44 to 77. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 May 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 48 to 52.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 May 2006 and their financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements.

It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 44 to 77:
 - (i) comply with generally accepted accounting practice in New Zealand;
 - (ii) comply with International Financial Reporting Standards; and
 - (iii) give a true and fair view of the financial position of the Company and Group as at 31 May 2006 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 28 July 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland



INCOME STATEMENT

For the year ended 31 May 2006

	Note	GROUP		COMPANY	
		MAY 2006 \$000	MAY 2005 \$000	MAY 2006 \$000	MAY 2005 \$000
CONTINUING OPERATIONS:					
Revenue	3	62,097	40,090	3,372	4,889
Changes in inventories		(6,313)	(20)	-	-
Patient consumables		(7,966)	(6,187)	-	-
Employee benefits		(30,155)	(23,774)	(3,804)	(3,862)
Depreciation and amortisation expenses		(1,996)	(1,403)	(99)	(48)
Occupancy costs		(3,846)	(2,734)	(456)	(302)
Other operating expenses	4	(8,341)	(5,586)	(1,596)	(1,433)
Other operating income	5	323	48	917	325
Operating profit		3,803	434	(1,666)	(431)
Net financing costs	6	(899)	(91)	(809)	(96)
Share of profit of associates	12	330	108	-	-
Profit before income tax		3,234	451	(2,475)	(527)
Income tax expense	7	(1,622)	(239)	(167)	(303)
Profit/(loss) for the year from continuing operations		1,612	212	(2,642)	(830)
DISCONTINUED OPERATIONS:					
Profit/(loss) for the year from discontinued operations	8	13,136	766	12,786	(3,068)
Profit/(loss) for the year		14,748	978	10,144	(3,898)
ATTRIBUTABLE TO:					
Equity holders of the company		14,748	978	10,144	(3,898)
Minority interest		-	-	-	-
		14,748	978	10,144	(3,898)
Earnings per share (from continuing operations)					
Basic (cents)	18	6.77	0.86		
Diluted (cents)	18	6.65	0.82		
Earnings per share (from discontinued operations)					
Basic (cents)	18	55.15	3.12		
Diluted (cents)	18	54.20	2.96		
Earnings per share (total)					
Basic (cents)	18	61.92	3.99		
Diluted (cents)	18	60.85	3.78		

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2006

GROUP	Note	SHARE CAPITAL \$000	TREASURY SHARES \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at 1 June 2004		57,382	-	(22,873)	34,509
Profit for the year		-	-	978	978
Shares issued	17	5,255	-	-	5,255
Cost of shares issued		(182)	-	-	(182)
Conversion of convertible notes		1,387	-	-	1,387
Share options expense		6	-	-	6
Balance at 31 May 2005		63,848	-	(21,895)	41,953
Balance at 1 June 2005		63,848	-	(21,895)	41,953
Profit for the year		-	-	14,748	14,748
Shares issued/(repaid)	17	(9,752)	-	-	(9,752)
Cost of shares issued/(repaid)		(64)	-	-	(64)
Executive share scheme		482	(482)	-	-
Share options expense		5	-	-	5
Balance at 31 May 2006		54,519	(482)	(7,147)	46,890
COMPANY					
	Note	SHARE CAPITAL \$000	TREASURY SHARES \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at 1 June 2004		57,382	-	(23,566)	33,816
Profit for the year		-	-	(3,898)	(3,898)
Shares issued	17	5,255	-	-	5,255
Cost of shares issued		(182)	-	-	(182)
Conversion of convertible notes		1,387	-	-	1,387
Share options expense		6	-	-	6
Balance at 31 May 2005		63,848	-	(27,464)	36,384
Balance at 1 June 2005		63,848	-	(27,464)	36,384
Profit for the year		-	-	10,144	10,144
Shares issued/(repaid)	17	(9,752)	-	-	(9,752)
Cost of shares issued/(repaid)		(64)	-	-	(64)
Executive share scheme		482	(482)	-	-
Share options expense		5	-	-	5
Balance at 31 May 2006		54,519	(482)	(17,320)	36,717

BALANCE SHEET

As at 31 May 2006

	Note	GROUP		COMPANY	
		MAY 2006 \$000	MAY 2005 \$000	MAY 2006 \$000	MAY 2005 \$000
ASSETS					
Non-current assets					
Property, plant and equipment	9	7,268	55,532	487	116
Intangible assets	10	70,720	21,419	1,565	1,498
Investments in subsidiaries	11	-	-	71,177	35,876
Investments in associates	12	1,865	1,186	1,078	1,078
Derivative financial instruments	13	140	-	140	-
Trade and other receivables	14	516	1,700	516	33,048
Deferred tax assets	15	673	-	10	96
Total non-current assets		81,182	79,837	74,973	71,712
Current assets					
Cash and cash equivalents		2,008	343	462	70
Trade and other receivables	14	10,257	6,916	1,417	352
Inventories	16	3,039	1,154	-	-
Current income tax assets		74	28	61	-
Derivative financial instruments	13	42	-	42	-
Total current assets		15,420	8,441	1,982	422
Total assets		96,602	88,278	76,955	72,134
EQUITY					
Share capital	17	54,037	63,848	54,037	63,848
Other reserves		-	-	-	-
Retained earnings (accumulated losses)		(7,147)	(21,895)	(17,320)	(27,464)
Total equity attributable to equity holders of the parent		46,890	41,953	36,717	36,384
Minority interest		-	-	-	-
Total equity		46,890	41,953	36,717	36,384
LIABILITIES					
Non-current liabilities					
Borrowings	19	10,957	1,967	10,334	1,629
Trade and other payables	21	101	141	-	-
Deferred tax liabilities	15	-	2,881	-	-
Deferred acquisition consideration	20	26,336	312	25,136	-
Total non-current liabilities		37,394	5,301	35,470	1,629
Current liabilities					
Borrowings	19	2,563	33,519	1,661	33,400
Provisions	22	87	-	87	-
Derivative financial instruments	13	28	-	-	-
Trade and other payables	21	9,640	7,505	3,020	721
Total current liabilities		12,318	41,024	4,768	34,121
Total liabilities		49,712	46,325	40,238	35,750
TOTAL EQUITY AND LIABILITIES		96,602	88,278	76,955	72,134

STATEMENT OF CASH FLOWS

For the year ended 31 May 2006

	Note	GROUP		COMPANY	
		MAY 2006 \$000	MAY 2005 \$000	MAY 2006 \$000	MAY 2005 \$000
Cash flows from operating activities					
Receipts from customers		64,825	68,669	3,300	3,934
Payments to suppliers and employees		(59,406)	(60,508)	(6,417)	(6,513)
Interest received		1,217	16	1,174	-
Interest paid		(1,658)	(2,913)	(1,518)	(2,911)
Income tax paid		(1,871)	-	(59)	-
Net cash generated from operating activities		3,107	5,264	(3,520)	(5,490)
Cash flows from investing activities					
Sale of property, plant and equipment		143	110	7	3
Sale of subsidiaries		62,227	-	62,227	-
Purchase of property, plant and equipment		(3,398)	(3,912)	(547)	(19)
Purchase of subsidiaries/businesses	11	(28,066)	(3,011)	(25,769)	-
Advances to subsidiaries		-	-	277	3,852
Cash balances acquired		(132)	-	-	-
Other investment income		-	-	217	325
Dividends paid to minority interest shareholders		(93)	-	-	-
Net cash used in investing activities		30,681	(6,813)	36,412	4,161
Cash flows from financing activities					
Proceeds from borrowings		11,000	6,699	11,000	6,699
Settlement of borrowings		(33,882)	(10,477)	(33,670)	(10,465)
Equity raised		128	5,052	128	5,052
Equity repaid		(10,020)	-	(10,020)	-
Net cash used in financing activities		(32,774)	1,274	(32,562)	1,286
Net increase/(decrease) in cash held		1,014	(275)	330	(43)
Cash at beginning of the period		(366)	(91)	(570)	(527)
Cash at end of period		648	(366)	(240)	(570)
Cash comprises:					
Cash at bank		2,008	343	462	70
Bank overdrafts		(1,360)	(709)	(702)	(640)
		648	(366)	(240)	(570)

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL INFORMATION

Abano Healthcare Group Limited (the Company) is a healthcare and medical service provider. The Company is a listed public company, incorporated and domiciled in New Zealand.

The consolidated financial statements of the Company for the year ended 31 May 2006, comprise the Company and its subsidiaries (together the Group) and the Group's interest in associates.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP, incorporating New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The Group has designated itself as a profit-orientated entity for the purposes of complying with NZ IFRS.

These are the Company's first NZ IFRS financial statements, and NZ IFRS 1 - "First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards" has been applied. An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance of the Group is provided in note 29.

The significant accounting policies applied in the preparation of the financial statements are set out below.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

NZ IFRS 1 requires the application of the Group's accounting policies under IFRS retrospectively at the date of transition, being 1 June 2004, with exception of a number of permitted exemptions. The Group has taken advantage of the exemptions noted below:

Business combinations: business combinations prior to the NZ IFRS transition date (1 June 2004) have not been restated.

Financial instruments: financial instruments and hedging relationships for comparative periods are determined under the requirements of NZ FRS. The adjustments required for the differences between NZ FRS and NZ IFRS are recognised at 1 June 2005.

The accounting principles applied in the preparation of the financial statements are on a historical cost basis, with the exception of financial assets and liabilities (including derivative instruments) at fair value through the profit or loss.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities over which the Company has control of the financial and operating policies so as to obtain benefits from its activities.

Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries with minority interest shareholdings over which the Company has issued put options to acquire the residual holding, are treated as being 100% owned for the purposes of consolidation.

A liability is recognised for the present value of the expected future payments to minority interest shareholders (including future dividends), with a corresponding entry to increase goodwill.

The amortisation resulting from the present value movement in this liability is recognised in the income statement as a finance charge. No minority interest is recognised in the income statement.

Associates

Associates are entities over which the Group has significant influence, but not control, of its commercial and financial policy decisions (generally accompanying a shareholding of between 20% and 50% of the voting rights).

Investments in associates are accounted for using the equity method, whereby the Group's share of the recognised gains and losses of an associate is included in the consolidated income statement and adjusted against the carrying amount of the investment. The Group's investments in associates are initially recorded at cost and includes goodwill (net of any impairment losses) identified on acquisition.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

Foreign exchange gains and losses resulting from the settlement of such transactions and the translation at year-end exchange rates are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Cost is the fair value of consideration given to acquire or construct the asset, plus other directly attributable costs which have been incurred in bringing the asset to the location and condition necessary for its intended use.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, only where it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other costs are recognised as repairs and maintenance in the income statement when incurred.

Depreciation of property, plant and equipment (excluding land), is calculated on a straight line basis to allocate the cost of the assets over their expected useful lives. For major classes of property, plant and equipment, the expected useful lives are:

Buildings	50 years
Leasehold improvements	5 - 10 years
Computer and office equipment	3 - 5 years
Motor vehicles	5 - 7 years
Plant and equipment	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Negative goodwill arising on an acquisition is recognised directly in the income statement

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of these cash-generating units represent the Group's investment in each sector by primary reporting segment.

Computer software

Software assets, licences and costs of developing computer systems are recorded as intangible assets when it is probable that future economic benefits will accrue to the Group. Computer software costs recognised as intangible assets are amortised over their estimated useful lives (not exceeding five years). Costs associated with maintaining computer software are recognised as an expense as incurred.

Software acquired as an integral part of plant and equipment is included in property, plant and equipment, and amortised over the life of the underlying asset.

IMPAIRMENT OF ASSETS

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Previously recognised impairment losses on assets other than goodwill may be reversed if there is a positive change in the estimates of the recoverable amount, but only to the extent of the prior cumulative impairment loss.

INVESTMENTS

Investments held by the Group are classified into the following categories: financial assets at fair value through profit or loss and loans and receivables. Classification depends on the purpose for which the investments were acquired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs, and carried at amortised cost using the effective interest rate method.

They are included as current assets, except for maturities greater than 12 months after balance date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Financial assets at fair value through profit or loss

Derivatives held by the Group which are not designated as hedges are classified as financial assets at fair value through profit or loss. These derivatives are carried at fair value. Gains and losses arising from changes in the fair value of these assets are included in the income statement.

The Group uses derivative financial instruments to hedge its exposure to interest rate risks. Where derivatives qualify for hedge accounting, recognition of any gain or loss is made in equity to the extent that the hedge was deemed effective. The portion of the hedge not deemed effective is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises purchased goods and raw materials, direct labour and other direct costs, including allocated production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

TRADE RECEIVABLES

Trade receivables are amounts outstanding from sales arising in the normal course of business, which normally have 30 to 90 day terms. Trade receivables are initially recognised at fair value (generally their original invoice amount) and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and at bank, call deposits and short-term deposit accounts with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

SHARE CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

BORROWINGS

Bank borrowings

Borrowings are initially recognised at fair value, net of any transaction costs. Borrowings are subsequently stated at amortised cost using the effective interest method, where any difference between the net proceeds and redemption value is recognised in the income statement over the period of the borrowing. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

Convertible notes

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the liability component is recognised at fair value, determined using the prevailing market interest rate for an equivalent non-convertible note. The difference between the proceeds of issue of the convertible note and the fair value assigned to the liability component, representing the embedded option for the holder to convert the note to equity, is included in equity.

DEFERRED INCOME TAX

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not recognised if it arises from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and the differences relating to investments in subsidiaries and associates to the extent that they will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured using tax rates enacted at balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

PROVISIONS

Provisions for restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions includes lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

LEASES

Leases in which a significant portion of the risks and rewards of ownership is transferred to the Group are classified as finance leases. Leased assets are recognised initially at the lower of the present value of the lease payments or their fair value. Leased assets are depreciated on the same basis as equivalent property, plant and equipment.

A lease is classified as an operating lease if it is not a finance lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

EMPLOYEE BENEFITS

Short-term employee benefits

Employee entitlements to salaries, wages and annual leave, to be settled within 12 months of reporting date represent present obligations resulting from employee's services provided up to the reporting date and are calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

Long-term employee benefits

Long-term benefits for the Group represent long service leave which vests to the employee after varying periods of service. The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised to the income statement.

Share-based compensation

The Group operates an equity-settled, share-based compensation plan granting non-transferable options to employees. The fair value of the options granted is recognised as an employee expense and is spread over the vesting period, based on the Group's estimate of the shares that will eventually vest.

REVENUE RECOGNITION

Sales of services

Sales of services are recognised according to the conditions of the contract, generally in the accounting period in which the service is rendered by reference to the proportion of the total services to be provided.

Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Licences to occupy

Revenue is recognised in the statement of financial performance as follows:

Initial Sale

Revenue is recorded when there is an unconditional sale of a property asset or licence to occupy in place. A surplus is recognised as the difference between the revenue from the sale and the cost incurred in developing the property which is the subject of the sale.

Cost includes all costs associated with development including land, materials, construction, capitalised funding costs and other direct costs incurred.

Resales

For resales of existing villas or apartments, revenue is the difference between the price of the new licence to occupy after deducting any Lifecare fee and the balance required to be paid for the repurchase of the licence to occupy.

Lifecare Fees

Lifecare fees are receivable from residents of villas or apartments which have been sold under a licence to occupy agreement. Lifecare fees represent a payment made by the purchaser of a licence to occupy, entitling the purchaser to the use of communal facilities and the right to be provided with care services. They fall into two categories: lifecare fees received in advance, and lifecare fees receivable on termination of the licence to occupy. Lifecare fees received in advance are refundable on a pro-rata basis if the resident terminates their licence to occupy within the initial term of the lifecare fee agreement. The lifecare fee is amortised to the income statement over the agreement period; the unamortised portion of the Lifecare fee is reflected as deferred income in the Statement of Financial Position. Lifecare fees receivable on termination of a licence to occupy are accrued to the income statement on a monthly basis during the initial term of the lifecare fee agreement; the accrued balance is recorded as a receivable in the balance sheet. When the occupation licence is terminated and resold the accrued balance is deducted from the proceeds of resale.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged in either providing products and services (business segment) or providing products or services within a particular economic environment (geographical segment), which is subject to the risks and rewards that are different from those of other segments.

The Group's primary reporting format is business segments.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTION

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

The estimates and assumptions that have a material risk adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the fair value of deferred acquisition consideration

The Group has recognised the fair value of deferred acquisition considerations in relation put options held by minority shareholders of non-wholly owned subsidiaries. The Group has used its judgment to make assumptions about the future cashflows that will be required to settle the put option.

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including credit risk, foreign exchange risk and interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

Credit risk

The Group incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The Group manages its exposure to credit risk through its credit policy, which restricts exposure to individual trade receivables. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group does not have any significant concentration of credit risk.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from transactions denominated in foreign currencies. The Group's policy is to manage foreign exchange risk to ensure that changes in foreign exchange rates do not materially impair the Group's profitability or cashflows. The Group uses forward contracts to manage its foreign exchange risk on material future commercial transactions.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cashflow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair-value interest rate risk. Group policy is to maintain a minimum level of 60% and maximum of 90% fixed rate debt on forecast debt levels. The Group manages its interest rate risk through the use of interest rate swaps.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

	AUDIOLOGY ¹		REHABILITATION		DIAGNOSTICS		DENTAL		TOTAL	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
SEGMENT REVENUE	13,603	-	14,637	12,263	19,183	18,434	14,674	9,393	62,097	40,090
Discontinued operations ³									3,085	26,405
OPERATING RESULT²										
Segment	2,461	-	874	626	1,913	1,321	(430)	(502)	4,818	1,445
Unallocated									(913)	(665)
Discontinued operations ³									159	3,440
Operating result (before interest and taxation)									4,064	4,220
ASSETS										
Segment Assets	50,109	-	18,604	10,627	11,265	11,333	11,389	7,356	91,367	29,316
Investments in Associates									1,865	1,186
Discontinued operations									-	56,001
Unallocated assets									3,370	1,775
Total assets									96,602	88,278
LIABILITIES										
Segment Liabilities	28,176	-	3,926	852	2,436	2,242	2,929	1,778	37,467	4,872
Discontinued operations ³									-	2,982
Unallocated assets									12,245	38,471
Total liabilities									49,712	46,325
CAPITAL EXPENDITURE	1,363	-	123	156	213	851	687	937	2,386	1,944
DEPRECIATION	251	-	204	150	493	590	572	351	1,520	1,091
AMORTISATION	20	-	26	21	168	92	201	189	415	302

¹ Results for the Audiology segment represent 8 months trading to 31 May 2006.

² Operating results include the allocation of attributable corporate overheads based on time engaged by corporate within each sector. Unallocated costs are specific to the Company and include directors fees, public relations and listing related costs.

³ Discontinued operations represent the Group's aged care sector, Eldercare New Zealand Limited and its subsidiaries, which were sold in July 2005.

The Group currently operates in only one geographical segment, being New Zealand. There is no inter-segment revenue.

3. REVENUE

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Sale of goods	13,062	38	-	-
Services rendered	49,035	40,052	2,786	3,782
Management fees	-	-	586	1,107
	62,097	40,090	3,372	4,889

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating expenses include:				
Directors fees	210	150	200	150
Donations	22	14	12	3
Fair value loss on foreign currency forward contracts	27	-	-	-
Increase in provisions	87	-	-	-
Net loss on sale of fixed assets	19	-	3	-
Rental expense on operating leases	2,791	2,083	509	356
Discontinued acquisition costs ¹	320	-	-	-
Diagnostic contract related costs ²	219	-	-	-
Auditors fees				
Audit services (PWC)	238	142	87	99
Other services provided by PWC ³	126	-	73	-

¹ One-off costs incurred during the negotiation and due diligence of a material potential acquisition which did not eventuate.

² One-off costs incurred due to the Commerce Commission application for the joint venture between Wellington Pathology Ltd and Valley Diagnostics Ltd and tendering for the Wellington/Hutt Valley diagnostic contract.

³ Includes costs of NZ IFRS implementation.

5. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating income includes:				
Affiliate income	303	-	-	-
Dividends received from subsidiaries	-	-	917	325
Net foreign exchange gains	5	-	-	-
Net gain on sale of fixed assets	-	48	-	-
Sundry other income	15	-	-	-
	323	48	917	325

6. NET FINANCING COSTS

	Note	GROUP		COMPANY	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Financial income					
Cash and cash equivalents		925	15	890	-
Trade and other receivables		127	145	127	145
Fair value gain on interest swaps		295	-	295	-
		1,347	160	1,312	145
Financial expenses					
Bank borrowings		(1,174)	(10)	(1,082)	-
Other borrowings		(162)	(241)	(129)	(241)
Fair value amortisation on put options	20	(910)	-	(910)	-
		(2,246)	(251)	(2,121)	(241)
Net financing costs		(899)	(91)	(809)	(96)

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current tax expense				
Current year	1,698	393	(732)	(1,122)
(Over) / under provision for prior years	11	-	31	-
	1,709	393	(701)	(1,122)
Deferred tax expense				
Movement in temporary differences	(98)	254	95	303
(Over) / under provision for prior years	(33)	-	(8)	-
Utilisation of tax losses	44	(408)	781	1,122
	(87)	(154)	868	1,425
Total income tax expense in income statement	1,622	239	167	303

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Reconciliation of accounting profit and taxable income				
Profit before tax	3,234	451	(2,475)	(527)
Taxation at 33%	1,067	149	(817)	(174)
Non-deductible expenses	689	125	439	25
Tax exempt revenues	(112)	(35)	(303)	-
(Over) / under provision for prior years	(22)	-	23	-
Group loss offset	-	-	825	452
	1,622	239	167	303

	COMPANY	
	2006 \$000	2005 \$000
Imputation credit account		
Balance at beginning of year	-	-
Credits attached to dividends received	452	-
Net tax payments/(refunds)	59	-
Balance at end of year	511	-

Imputation credits available to shareholders of the parent company:

Through the parent	511	-
Through subsidiaries	1,166	298
	1,677	298

NOTES TO THE FINANCIAL STATEMENTS

8. DISCONTINUED OPERATIONS

Discontinued operations represent Eldercare New Zealand Limited and its subsidiaries which were sold on 13 July 2005 (refer note 11). Eldercare New Zealand Limited represented the Group's aged care sector, operating 13 residential facilities at the date of disposal.

An analysis of the result of discontinued operations is as follows:

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenue	3,085	26,405	-	-
Operating expenses	(3,066)	(25,580)	(1,245)	(3,068)
Profit/(loss) before tax	19	825	(1,245)	(3,068)
Income tax expense	(2)	(59)	80	-
Gain on disposal of investment	13,119	-	13,951	-
Profit/(loss) for the year from discontinued operations	13,136	766	12,786	(3,068)
Operating cashflows	1,192	5,304	(244)	(2,683)
Investing cashflows	(484)	(2,812)	-	-
Total cashflows	708	2,492	(244)	(2,683)
Operating expenses includes:				
Donations	-	1	-	-
Rental expense on operating leases	17	216	-	-
Auditors fees				
Audit services (PWC)	-	90	-	-

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

GROUP	\$000	LAND & BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	WORK IN PROGRESS
AT 1 JUNE 2004					
Cost	70,063	53,472	15,179	1,314	98
Accumulated depreciation	(14,997)	(5,490)	(8,867)	(640)	-
Net Book Value	55,066	47,982	6,312	674	98
YEAR ENDED 31 MAY 2005					
Opening net book value	55,066	47,982	6,312	674	98
Additions	3,447	1,143	1,396	226	682
Disposals	(132)	-	(17)	(115)	-
Depreciation	(2,849)	(595)	(2,070)	(184)	-
Closing Net Book Value	55,532	48,530	5,621	601	780
AT 1 JUNE 2005					
Cost	73,232	54,614	16,573	1,265	780
Accumulated depreciation	(17,700)	(6,084)	(10,952)	(664)	-
Net Book Value	55,532	48,530	5,621	601	780
YEAR ENDED 31 MAY 2006					
Opening net book value	55,532	48,530	5,621	601	780
Acquired through business combinations	3,126	894	1,923	79	230
Additions	2,514	1,271	1,053	166	24
Disposals	(52,088)	(48,121)	(2,730)	(239)	(998)
Depreciation	(1,816)	(353)	(1,322)	(141)	-
Closing Net Book Value	7,268	2,221	4,545	466	36

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

COMPANY	\$000	LAND & BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	WORK IN PROGRESS
AT 1 JUNE 2004					
Cost	179	9	170	-	-
Accumulated depreciation	(28)	(2)	(26)	-	-
Net Book Value	151	7	144	-	-
YEAR ENDED 31 MAY 2005					
Opening net book value	151	7	144	-	-
Additions	18	-	18	-	-
Disposals	(15)	-	(15)	-	-
Depreciation	(38)	(2)	(36)	-	-
Closing Net Book Value	116	5	111	-	-
AT 1 JUNE 2005					
Cost	178	9	169	-	-
Accumulated depreciation	(62)	(4)	(58)	-	-
Net Book Value	116	5	111	-	-
YEAR ENDED 31 MAY 2006					
Opening net book value	116	5	111	-	-
Additions	453	284	169	-	-
Disposals	(10)	-	(10)	-	-
Depreciation	(72)	(27)	(45)	-	-
Closing Net Book Value	487	262	225	-	-

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	GOODWILL	OTHER	GROUP TOTAL \$000	GOODWILL	OTHER	COMPANY TOTAL \$000
AT 1 JUNE 2004						
Cost	20,709	1,807	22,516	1,545	29	1,574
Accumulated amortisation	(2,552)	(1,081)	(3,633)	(65)	(3)	(68)
Net Book Value	18,157	726	18,883	1,480	26	1,506
YEAR ENDED 31 MAY 2005						
Opening net book value	18,157	726	18,883	1,480	26	1,506
Additions	2,313	619	2,932	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-
Amortisation charge	-	(396)	(396)	-	(8)	(8)
Closing Net Book Value	20,470	949	21,419	1,480	18	1,498
AT 1 JUNE 2005						
Cost	23,022	2,426	25,448	1,545	29	1,574
Accumulated amortisation	(2,552)	(1,477)	(4,029)	(65)	(11)	(76)
Net Book Value	20,470	949	21,419	1,480	18	1,498
YEAR ENDED 31 MAY 2006						
Opening net book value	20,470	949	21,419	1,480	18	1,498
Additions	2,284	405	2,689	-	94	94
Disposals	(1,427)	(110)	(1,537)	-	-	-
Acquisition of subsidiary	49,730	158	49,888	-	-	-
Fair value change in put option	(1,299)	-	(1,299)	-	-	-
Amortisation charge	-	(440)	(440)	-	(27)	(27)
Closing Net Book Value	69,758	962	70,720	1,480	85	1,565

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's) identified according to business segment.

A segment-level summary of the goodwill allocation is presented below:

	2006 \$000	2005 \$000
Audiology	42,898	-
Rehabilitation	13,251	7,719
Diagnostics	6,497	6,497
Dental	7,112	4,824
Discontinued operations	-	1,430
	69,758	20,470

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections derived from the Groups strategic plan forecasts as approved by the Board. These forecasts cover a four year period.

Cash flows beyond the four-year period are extrapolated using an estimated growth rate of 2%. The growth rate does not exceed the long-term average growth rate for the sectors in which the CGU's operate. Cash flows are discounted as a pre-tax discount rate of 10%.

The value-in-use calculation supports the carrying amount of the recorded goodwill at year end.

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS IN SUBSIDIARIES

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Shares in subsidiaries	-	-	71,177	35,876

The company's investments in subsidiaries comprises shares at cost, including amounts payable under put options held by minority interest shareholders (refer note 20).

The following subsidiaries have been included in the Group consolidated financial statements:

NAME OF ENTITY	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
		2006	2005
Bay Audiology Limited	Audiology	70%	0%
Eldercare New Zealand Limited (and its subsidiaries)	Aged Care	0%	100%
Lumino Dental Limited	Dental	100%	100%
Nelson Diagnostic Laboratory Limited	Diagnostic	100%	100%
New Zealand Dental Group Limited	Dental	100%	100%
Orthotic Centre (NZ) Limited	Rehabilitation	70%	0%
Orthotic Centre (Wellington) Limited	Rehabilitation	70%	0%
Ranworth Healthcare Limited	Rehabilitation	100%	100%
Wellington Pathology Limited	Diagnostic	100%	100%

The balance date of all subsidiaries is 31 May, with the exception of Orthotic Centre (NZ) Limited, and Orthotic Centre (Wellington) Limited, which have a 30 June balance date.

All entities are incorporated in New Zealand.

ACQUISITION OF SUBSIDIARIES

On 3 October 2005, the group acquired 70% of Bay Audiology Limited and 70% of Orthotic Centre (NZ) Limited for total cash considerations of \$21.1M and \$4.7M respectively. The Group has a call option to buy the remaining 30% of each company in 2010 and 2008 respectively.

The minority interest shareholders also hold put options to require the Group acquire their respective share holdings at various exercise dates. The Group's liability to the holders of these put options is recognised in the balance sheet as deferred acquisition consideration, and is offset by an increase in goodwill (refer note 20). The goodwill recognised is attributable to the future profitability of the acquired businesses.

The operating results of these businesses have been included in the income statement from acquisition date. In accordance with Group accounting policy, no minority interest expense is recognised in relation to these subsidiaries. The acquired subsidiaries contributed revenue of \$17.4M and net profit after tax of \$0.9M to the Group for the period to 31 May 2006.

	NOTE	TOTAL \$000
Fair value of net assets acquired:		
Current assets		7,278
Current liabilities		(6,731)
Non-Current liabilities		(466)
Non-Current assets		1,880
Acquisition costs		209
Goodwill on acquisition		23,599
Consideration paid		25,769
Fair value of put option liability	20	25,922
Total Consideration		51,691
Goodwill on acquisition		23,599
Acquisition costs		209
Fair value of put option liability	20	25,922
Total goodwill recognised		49,730

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS IN SUBSIDIARIES CONTINUED

DISPOSAL OF SUBSIDIARY

On 13 July 2005, the Group sold its 100% holding in Eldercare New Zealand (and its subsidiaries) for a total cash consideration of \$63.3M, of which \$33.6M was applied to an intercompany loan, realising a net gain of \$13.1M, after costs.

	TOTAL \$000
Fair value of net assets disposed:	
Cash and cash equivalents	287
Current assets	1,974
Current liabilities	(3,446)
Non-current liabilities	(33,647)
Non-current assets	53,351
	18,519

ACQUISITION OF BUSINESSES

During the year the Group acquired the following businesses for a total cash consideration of \$2.3M:

Excel Dental Care Limited	01-Jul-2005
Karen Harris Dental	30-Sep-2005
Cosmetic Dental Care Limited	08-Dec-2005
Pitt Street Family Dental	01-Mar-2006
Mirimar Dental Health Centre	07-Mar-2006

The operating results of these businesses have been included from their respective acquisition dates. The goodwill recognised is attributable to the future profitability of the acquired businesses.

Summary of the effect of the acquisitions:

	TOTAL \$000
Fair value of net assets acquired:	
Current assets	14
Current liabilities	(28)
Non-current assets	916
Acquisition costs	144
Goodwill on acquisition	1,251
Consideration paid	2,297
Deferred acquisition consideration	888
Total Consideration	3,185
Goodwill on acquisition	1,251
Deferred acquisition consideration	888
Acquisition costs	144
Total goodwill recognised	2,283

NOTES TO THE FINANCIAL STATEMENTS

12. INVESTMENTS IN ASSOCIATES

The Group's investments in associates comprises:

	INTEREST HELD	
	2006	2005
Ascot Radiology Limited	40%	40%
Dilworth Audiology Limited	40%	0%
Orthotic Centre (Midlands) Limited	50%	0%

During the year the Group acquired interests in Dilworth Audiology Limited and Orthotic Centre (Midlands) Limited as part of its acquisition of Bay Audiology Limited and Orthotic Centre (NZ) Limited.

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at beginning of the year	1,186	-	1,078	-
Acquisition	349	1,078	-	1,078
Share of profit/(loss)	330	108	-	-
Dividends	-	-	-	-
Balance at end of the year	1,865	1,186	1,078	1,078

Goodwill included in the carrying amount of investments in associates:

Balance at beginning of the year	1,280	-	1,280	-
Balance at end of the year	1,280	1,280	1,280	1,280

Summary of financial information for significant associates:

	ASCOT RADIOLOGY LIMITED	ASCOT RADIOLOGY LIMITED	DILWORTH AUDIOLOGY LIMITED	DILWORTH AUDIOLOGY LIMITED
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Assets	3,425	3,458	1,285	-
Liabilities	(2,987)	(3,660)	(513)	-
Equity	439	(202)	772	-
Revenues	5,697	4,952	4,090	-
Profit/(loss)	613	451	272	-

NOTES TO THE FINANCIAL STATEMENTS

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2006		2005	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps	182	-	-	-
Forward foreign exchange contracts	-	28	-	-
TOTAL	182	28	-	-
Less non-current portion				
Interest rate swaps	140	-	-	-
	140	-	-	-
CURRENT PORTION	42	28	-	-

Interest Rate Swaps

The notional principal amounts of outstanding interest-rate swap contracts at 31 May 2006 were \$10M (2005: \$30M). At 31 May 2006 the fixed rates vary from 6.2-6.3% (2005: 6.0-6.6%) and the floating rates are BKBM.

Foreign exchange forward contract

The notional principal amounts of outstanding forward contracts at 31 May 2006 were \$0.5M (2005: Nil)

The Group has exposure to foreign currency risk as a result of transactions denominated in USD from normal trading activities. The foreign exchange contract expires in March 2007.

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current				
Trade receivable	7,897	4,965	380	310
Prepayments	252	1,213	60	10
Other receivables	1,103	738	3	32
Prepaid banking costs	168	-	168	-
Owing from related parties	806	-	806	-
Owing from associates	31	-	-	-
	10,257	6,916	1,417	352
Non-Current				
Owing from related parties	241	1,417	241	1,417
Other non-current receivables	275	283	275	283
Owing from subsidiaries	-	-	-	31,348
	516	1,700	516	33,048

Loans owing from related parties represent the Executive Optional Convertible Note Plan (note 25). The effective interest rate on these loans is 7.7% to 8.4% (2005: 7.7% to 8.4%). These loans are subject to cash flow interest rate risk, as the interest rate is re-set quarterly to the FBT prescribed rate of interest.

There is no concentration of credit risk with respect to trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

15. DEFERRED TAXATION

The net movement in deferred tax assets/(liabilities) during the year is as follows:

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at start of year	(2,881)	(2,627)	96	399
Acquisition of subsidiary	24	-	-	-
Disposal of subsidiary	3,399	-	-	-
Income statement charge	131	(254)	(86)	(303)
Balance at end of year	673	(2,881)	10	96

Deferred tax assets/(liabilities) are attributable to the following:

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Property, plant and equipment	91	(3,741)	(5)	(5)
Employee benefits	445	702	45	63
Trade and other receivables	130	43	-	-
Trade and other payables	24	77	1	-
Provisions	29	-	29	-
Other items	(46)	-	(60)	-
Losses	-	38	-	38
	673	(2,881)	10	96

16. INVENTORIES

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Raw materials and consumables	1,159	966	-	-
Work in progress	343	188	-	-
Finished goods and goods for sale	1,537	-	-	-
	3,039	1,154	-	-

NOTES TO THE FINANCIAL STATEMENTS

17. SHARE CAPITAL

	Number of Shares 000	Ordinary Shares \$000	Share Premium \$000	Treasury Shares \$000	TOTAL \$000
At 1 June 2004	219,954	50,304	7,078	-	57,382
Shares issued	40,424	5,073	-	-	5,073
1:10 consolidation	(234,340)	-	-	-	-
Conversion of convertible notes	1,067	1,387	-	-	1,387
Executive convertible note scheme - value of services provided	-	-	6	-	6
At 31 May 2005	27,105	56,764	7,084	-	63,848
Shares issued	36	77	-	-	77
Shares cancelled	(4,525)	(10,020)	-	-	(10,020)
Executive convertible note scheme - proceeds from shares issued	85	127	-	-	127
Executive compensation scheme - value of services provided	-	-	5	-	5
- proceeds from shares issued	309	482	-	(482)	-
At 31 May 2006	23,010	47,430	7,089	(482)	54,037

As at 31 May 2006 there were 23,009,503 ordinary shares on issue (2005: 27,105,432). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. There is no other class of share issued.

During the year, the following share transactions took place:

Share Issues

On 31 August 2005 35,669 shares were issued to senior executives in lieu of 56% of their bonuses for the year ended 31 May 2005, at a price of \$2.16 per share.

On 10 February 2006, executive convertible notes with a face value of \$127,500 converted to 85,000 ordinary shares at \$1.50 per share.

Share Buy-back

On 30 August 2005 the Group made a return of equity to shareholders, by way of a voluntary, off-market share buy-back and cancellation at \$2.20 per share. 4,525,572 shares were cancelled as a result of this transaction.

Executive Share Scheme

On 23 March 2006, 308,974 shares were issued under the employee share scheme approved by shareholders on 23 September 2005 (refer note 25).

The employees are not entitled to the shares or any dividends/benefits attaching to the shares during the duration of the scheme. At the end of the scheme on 23 March 2009 the shares will either be acquired by the employee or have been cancelled by the company, depending on whether performance criteria have been met. Until this time, the shares are treated as treasury stock of the company.

NOTES TO THE FINANCIAL STATEMENTS

18. EARNINGS PER SHARE

	GROUP	
	2006 \$000	2005 \$000
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares on issue during the year.		
Profit attributable to equity holders of the Company		
Continuing operations	1,612	212
Discontinued operations	13,136	766
Weighted average number of ordinary shares on issue (000's)	23,819	24,531
Basic earnings per share		
Continuing operations	6.77	0.86
Discontinued operations	55.15	3.12
Diluted earnings per share		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Weighted average number of ordinary shares on issue (000's)	23,819	24,531
Weighted average number of convertible notes (000's)	418	1,358
Weighted average number of shares and notes (000's)	24,237	25,889
Diluted earnings per share		
Continuing operations	6.65	0.82
Discontinued operations	54.2	2.96

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current borrowings				
Bank overdraft	1,360	709	702	640
Secured bank loans	194	32,666	-	32,666
Executive convertible notes	865	-	865	-
Unsecured loans	144	144	94	94
	2,563	33,519	1,661	33,400
Non-current borrowings				
Secured bank loans	10,388	-	10,050	-
Executive convertible notes	240	1,499	240	1,499
Unsecured loans	329	468	44	130
	10,957	1,967	10,334	1,629
Term schedule				
Later than one year, less than two	596	1,713	284	1,353
Later than two years, less than five	10,361	254	10,050	276
Over five years	-	-	-	-
	10,957	1,967	10,334	1,629

Bank borrowings are secured by way of a general security agreement over the Group's assets and undertakings.

The Group currently has a \$15M term debt facility with ASB Bank with an initial term of four years, maturing February 2010. Remaining funds of \$5M were undrawn at balance date. The current interest rate on this facility is 8.13%.

The Group's overdraft facilities have a limit of \$1.5M, with a current interest rate of 9.25%

Executive convertible notes with a face value of \$1,104,684 were on issue at balance date, with an effective interest rate of 8.3%.

All of the Group's borrowings, excluding unsecured loans, are subject to cash flow interest rate risk as floating interest rates are reset as market rates change. The exposure to interest rate changes and the contractual repricing dates are as follows:

	WITHIN 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
As at 31 May 2006				
Total borrowings	2,419	10,628	-	13,047
Effect of interest rate swaps (note 13)	(3,000)	(7,000)	-	(10,000)
	(581)	3,628	-	3,047
As at 31 May 2005				
Total borrowings	33,375	1,245	254	34,874
Effect of interest rate swaps (note 13)	(6,000)	(13,000)	-	(19,000)
	27,375	(11,755)	254	15,874

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED ACQUISITION CONSIDERATION

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Put option liabilities	25,136	-	25,136	-
Acquisition retention amounts	494	-	-	-
Acquisition earn-out liabilities	706	312	-	-
	26,336	312	25,136	-
Term schedule				
Later than one year, less than two	256	-	-	-
Later than two years, less than five	3,340	312	2,396	-
Over five years	22,740	-	22,740	-
	26,336	312	25,136	-

Put option liabilities relate to options issued by the Company to minority interest shareholders of subsidiaries (refer note 11). The put option liability is measured at fair value, being the net present value of managements forecast cash outflows for settling liabilities owed to minority interest shareholders (including future dividends). Each put option agreement has a pre-determined formula for calculating the amount payable to acquire the shares, based on a multiple of the earnings of that company.

Assumptions made by management in the forecast of future earnings is that the company's will perform to the Group's strategic plan, as approved by the Board. The amount calculated is discounted at a post tax rate of 5.2%.

The movement in the put option liabilities attributable to the movement in present value between reporting periods is recognised in the income statement as a finance cost. Movements attributable to changes in the fair value are recognised by a corresponding entry to goodwill.

Acquisition retention amounts represent the portion of the purchase price of dental acquisitions withheld from the vendor as security for the performance of the business for a certain period after acquisition. The funds are paid to the vendor at the expiry of this term, only if the practice performed to forecast. No interest is payable on these amounts.

Acquisition earn-out liabilities represent managements forecast of amounts due to vendors of dental acquisitions for future performance in excess of the agreed targets at the date of acquisition.

21. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current				
Accounts payable	5,743	2,717	198	296
Employee entitlements	2,289	3,001	93	184
Director's fees	56	38	56	38
Sundry creditors and accruals	1,552	1,749	134	203
Owed to subsidiaries	-	-	2,539	-
	9,640	7,505	3,020	721
Non-current				
Employee entitlements	101	141	-	-
	101	141	-	-

NOTES TO THE FINANCIAL STATEMENTS

22. PROVISIONS

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
RESTRUCTURING PROVISION				
Balance as start of year	-	-	-	-
Provisions made during the year	87	-	87	-
Provisions used during the year	-	-	-	-
Balance at end of the year	87	-	87	-
Current	87	-	87	-
Non-current	-	-	-	-
	87	-	87	-

Restructuring

During March 2006 the Company restructured its operations within the Rehabilitation sector through closure of three small branches of Burtons & Health Partners. A provision of \$87,000 has been recognised is for residual costs to be incurred, and is expected to be realised during the first half of the next financial year.

23. OPERATING LEASES

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Non-cancellable operating lease obligations				
Not later than one year	2,628	1,900	264	281
Later than one year, not later than five	7,534	2,533	497	240
Later than five years	1,084	510	35	-
Total lease commitments	11,246	4,943	796	521

The Group leases premises, motor vehicles and plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of motor vehicles or plant and equipment held under operational leases.

24. COMMITMENTS

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Amounts committed to capital expenditure	-	1,915	-	-

The Group currently has no contracted commitments for capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENTS

EXECUTIVE CONVERTIBLE NOTES

In 2001 the Eldercare New Zealand Limited Convertible Note Plan was established. Under this plan certain executives of the Group were offered an opportunity to subscribe for optional convertible notes. The Company advanced the funds required to purchase the notes and these advances are repayable when the notes convert into ordinary shares or are otherwise redeemed. The notes were issued over a period of three years, and have varying conversion prices.

Conversion prices for notes outstanding at 31 May 2006 are as follows:

	FACE VALUE	SHARE PRICE
Expiring 1 November 2006	75,000	2.20
	97,500	2.30
	70,000	2.50
Expiring 1 June 2007	20,000	3.00
	15,000	3.50
	15,000	4.00

Summary of executive convertible notes on issue:

	GROUP/ COMPANY	
	2006 \$000	2005 \$000
Balance at beginning of year	1,499	1,871
Cancelled during the year	(200)	(363)
Converted during the year	(128)	-
Interest repaid during the year	(183)	(156)
Interest accrued during the year	113	149
Fair value gain/(loss) on notes cancelled/converted	4	(2)
Balance at end of year	1,105	1,499

On 10 February 2006, notes with a face value of \$127,500 converted at \$1.50 per share to 85,000 ordinary shares. The weighted average share price at the date of conversion was \$1.73

EXECUTIVE SHARE SCHEME

On 23 September 2005 shareholders approved the Executive Share Scheme (the Scheme). The Scheme provides for certain employees to be issued shares (Share Scheme Shares), for which the Company provides an interest free loan. 308,974 Share Scheme Shares were issued on 23 March 2006, at \$1.56 per share, being the average closing price over the previous 5 trading days. A loan of \$482,000 was provided to employees on this date to acquire the Share Scheme Shares.

The employee does not become entitled to keep the Share Scheme Shares until certain performance criteria are met, and the employees remain in employment with the Company for the term of the Scheme. The Scheme covers a term of three years, and provides three separate performance targets to be achieved during each of those years.

The Company holds call options over the Share Scheme Shares which may be exercised over all or part of the Share Scheme Shares if performance criteria are not met. If a call option is exercised by the Company, the proceeds are applied to the outstanding loan owed by the employees for the initial purchase of the shares.

The employees hold put options which may be exercised at the end of the Scheme at a price of \$1.56 per share. The proceeds from the exercising of the put options are to be used to repay the remaining "uncalled" Share Scheme Shares. If the employee exercises the put option, they become entitled to a performance bonus equal to the amount of outstanding loan at the end of the Scheme.

The fair value of the employee's option to receive shares at the end of the Scheme at the issue price of \$1.56 has been valued using the Black Scholes model. The option was valued at \$90,043 and the Group is amortising this value over the period of service. During the current year \$5,001 was charged to the income statement as executive remuneration.

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY INFORMATION

The Group has related party transactions with its subsidiaries (see note 11), associates (see note 12) and with its directors and key management. Key management includes personnel within subsidiary companies with the authority and responsibility for planning, directing and controlling the activities of that entity.

Related party transactions

The Group utilises the services of Sammies Securities Limited for the servicing and repair of rehabilitation equipment, of which Mr V Sampson (minority shareholder in Orthotic Centre NZ Limited) is an associated person. All transactions are carried out at arms length and at normal commercial rates. During the year services to the value of \$132,000 (2005: \$Nil) were provided by Sammies Securities Limited. A balance of \$19,000 is owed by the Group at 31 May 2006 (2005: \$Nil).

The Group leases premises from PACK Limited, of which Mr C Teague, Mr P Bethwaite and Mr A Tie are associated persons. During the year, rentals totalling \$26,000 (2005: \$29,000) were paid by the Group. The Group also leases premises from Lakeside Specialist Centre Limited, of which Mr P Hutson is an associated person. During the year, rentals totalling \$47,000 (2005: \$Nil) were paid by the Group. Both leases are carried out at arms length and on normal commercial terms.

Transactions between the Company and its subsidiaries include cash advances, expenditure recharges and the provision of management services (see note 4). At year end a balance of \$2,539M was owing to subsidiaries (2005: \$31,348M owing by subsidiaries).

Loans to related parties represents fund advanced under the Executive Convertible Note Plan (see note 25). At year end a balance of \$1,047M was owed to the Group (2005: \$1,417).

The key management compensations are as follows:

	GROUP		COMPANY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Key Management compensation				
Short term benefits	2,433	1,616	801	526
Other long-term benefits	27	-	27	-
Share based payments	5	5	5	5
	2,465	1,621	833	531

27. SUBSEQUENT EVENTS

Business acquisition

On 3 July 2006 the Group acquired the dental practices of Geoff Hunt and Cathrine Lloyd.

Nelson Diagnostic Laboratory Contract

On 23 May 2006, Nelson Diagnostics Laboratory Limited (NDL) was advised by the Nelson Marlborough DHB ("NMDHB") that it was commencing negotiations with another provider for the regions laboratory services contract. At that stage, NDL's annual contract had been extended to 31 August 2006.

Subsequent to year-end, the NMDHB has advised that a decision on the agreed provider of a new contract will be deferred until at least mid September 2006. Should the NMDHB decide not to contract with the other provider, they have advised that status-quo will remain. As no final decision has been made by the NMDHB, no provision for the closure of NDL has been made in the financial statements.

Should the NMDHB award the contract to another provider, the Group would incur costs of approx. \$0.5M in relation to redundancies. The current net assets of NDL is \$0.5M and it is anticipated that the company would realise at least this amount upon closure of the business.

NOTES TO THE FINANCIAL STATEMENTS

28. RECONCILIATION OF NET CASHFLOWS FROM OPERATING ACTIVITIES TO REPORTED PROFIT AFTER TAX

For the year ended 31 May 2006

	GROUP		COMPANY	
	MAY 2006 \$000	MAY 2005 \$000	MAY 2006 \$000	MAY 2005 \$000
Profit for the period	14,748	978	10,144	(3,898)
Non-cash items:				
Depreciation	1,815	2,921	72	40
Amortisation of intangible assets	440	396	27	8
Utilisation/(recognition) of deferred tax asset	(307)	314	(33)	335
Interest expense on financial liabilities	116	242	116	242
Amortisation of put option fair value	907	-	907	-
Interest income on financial assets	(106)	(137)	(106)	(137)
Fair value movement on derivatives	(154)	-	(182)	-
Executive compensation expense	5	5	5	5
Share of surplus retained by associates	(330)	(108)	-	-
	2,386	3,633	806	493
Movement in working capital:				
(Increase)/decrease in trade and other receivables	(577)	279	(225)	(790)
(Decrease)/increase in trade and other payables	(353)	479	(1,080)	(970)
(Decrease)/increase in deferred income	-	(261)	-	-
	(930)	497	(1,305)	(1,760)
Items classified as investing activities:				
Realised (gain)/loss on sale of property, plant and equipment	18	108	3	-
Realised (gain)/loss on sale of subsidiaries	(13,115)	-	(12,950)	-
Other investment income	-	48	(218)	(325)
	(13,097)	156	(13,165)	(325)
Net cash flows from operating activities	3,107	5,264	(3,520)	(5,490)

NOTES TO THE FINANCIAL STATEMENTS

29. EXPLANATION OF TRANSITION TO NZ IFRS

RECONCILIATION OF TOTAL ASSETS	1 Jun 2004 \$000	31 May 2005 \$000
TOTAL ASSETS UNDER NZ FRS	84,646	87,339
NZ IFRS adjustments:		
Deferred tax	(364)	(22)
Financial instruments	28	(6)
Goodwill and other intangible assets	(20)	967
Total NZ IFRS adjustments	(356)	939
Restated balances under NZ IFRS	84,290	88,278

NZ IFRS ADJUSTMENTS	1 Jun 2004 \$000	31 May 2005 \$000
Property, plant and equipment		
Reclassification of software assets to intangibles	(746)	(968)
	(746)	(968)
Intangible assets		
Reclassification of software assets to intangibles	746	968
Write-off of internally generated intangible assets	(20)	(129)
Writeback of goodwill amortisation	-	1,075
	726	1,914

To comply with NZ IAS 38, all software assets have been reclassified as intangible assets. NZ IFRS 3 requires that goodwill is not amortised and accordingly goodwill amortisation has been reversed. Internally developed intangible assets, such as web development and rebranding have been written off in accordance with NZ IAS 38.

Investment in associates

Writeback of goodwill amortisation	-	21
Fair value adjustment	-	(33)
	-	(12)

As stated above, goodwill is no longer amortised and the amortisation has been reversed. Upon acquisition, an interest free loan was provided to the Group from the exiting shareholders. In accordance with NZ IAS 39 this loan has been restated at fair value, resulting in an decrease in the carrying amount of the investment.

Deferred tax asset

Reclassification to offset deferred tax liability	(364)	(22)
	(364)	(22)

Deferred tax assets have been offset against new deferred tax liabilities in accordance with NZ IAS 12.

Current trade and other receivables

Reclassification of loans to non-current receivables	(1,740)	(1,388)
	(1,740)	(1,388)

Non-current loans and receivables

Reclassification of loans from receivables	1,740	1,388
Effective interest rate adjustment	28	27
	1,768	1,415

In accordance with NZ IAS 39, loans previously issued to executives for the purposes of acquiring convertible notes have been recognised at fair value and reclassified from current trade and other receivables.

TOTAL ASSET IFRS ADJUSTMENTS	(356)	939
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NOTES TO THE FINANCIAL STATEMENTS

29. EXPLANATION OF TRANSITION TO NZ IFRS CONTINUED

RECONCILIATION OF TOTAL LIABILITIES	1 Jun 2004 \$000	31 May 2005 \$000
TOTAL LIABILITIES UNDER NZ FRS	43,797	41,697
NZ IFRS adjustments:		
Deferred tax	2,606	2,905
Financial instruments	-	(27)
Convertible notes	3,167	1,529
Employee benefits	212	221
Total NZ IFRS adjustments	5,985	4,628
Restated balances under NZ IFRS	49,782	46,325

NZ IFRS ADJUSTMENTS	1 Jun 2004 \$000	31 May 2005 \$000
Current trade and other payables		
Employee benefits/long service leave adjustments	81	79
	81	79
Non-current trade and other payables		
Employee benefits/long service leave adjustments	131	142
	131	142

In accordance with NZ IAS 19, provision for long service leave has been calculated as the present value of the future benefit that employees have earned in return for their service in past periods. Under NZ FRS, this provision was recognised when the employees long service leave days had vested.

Deferred tax liability

The above changes increased/(decreased) the deferred tax liability as follows:

Property, plant and equipment	3,047	3,046
Intangible assets	(7)	(43)
Current trade and other payables	(70)	(73)
Offset deferred tax asset	(364)	(25)
	2,606	2,905

Under NZ FRS, on the basis that assets are held for use (rather than for sale), no deferred tax liability was recorded on the revaluation above cost. NZ IAS 12 requires a deferred tax liability to be recognised to reflect the future income embodied in the asset's carrying value. A liability has been recognised for buildings held within the Aged Care Sector, where valuation was in excess of cost by \$9.2M.

Borrowings

Reclassification of convertible notes	3,167	1,503
Fair value adjustment	-	(1)
	3,167	1,502

NZ IAS 32 requires the debt component of convertible notes to be recognised as a liability. Under NZ FRS convertible notes were recognised as equity. The liability component of the convertible notes has been calculated as the present value of the forecast future cashflow payments. The residual remains in equity, representing the value of the option component of the compound instrument.

TOTAL LIABILITY IFRS ADJUSTMENTS	5,985	4,628
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NOTES TO THE FINANCIAL STATEMENTS

29. EXPLANATION OF TRANSITION TO NZ IFRS CONTINUED

RECONCILIATION OF EQUITY	1 Jun	31 May
	2004	2005
	\$000	\$000
EQUITY UNDER NZ FRS	40,849	45,642
NZ IFRS adjustments:		
Deferred tax	(3,047)	(3,083)
Financial instruments	28	22
Convertible notes	(3,168)	(1,529)
Goodwill and other intangible assets	(13)	1,048
Employee benefits	(141)	(147)
Total NZ IFRS adjustments	(6,341)	(3,689)
Restated balances under NZ IFRS	34,508	41,953

	NZ IFRS ADJUSTMENTS	
	1 Jun	31 May
	2004	2005
	\$000	\$000
Retained earnings		
The effect of the above adjustments on retained earnings is as follows:		
Intangible assets	(20)	967
Non-current loans and receivables	28	27
Current trade and other payables	(212)	(221)
Deferred tax liability	(2,970)	(2,927)
Borrowings	-	(32)
	(3,174)	(2,186)
Optional convertible notes		
Reclassification to financial liabilities	(3,167)	(1,503)
	(3,167)	(1,503)
As stated under Borrowings, the liability component of convertible notes have been reclassified as borrowings.		
TOTAL EQUITY ADJUSTMENTS	(6,341)	(3,689)

NOTES TO THE FINANCIAL STATEMENTS

29. EXPLANATION OF TRANSITION TO NZ IFRS CONTINUED

RECONCILIATION OF NET PROFIT OR LOSS	31 MAY 2005		
	NZ FRS	EFFECT OF TRANSITION	NZ IFRS
	\$000	\$000	\$000
Continuing operations:			
Sales	40,090	-	40,090
Changes in inventories	(20)	-	(20)
Patient welfare expenses	(6,187)	-	(6,187)
Employee benefits	(23,779)	5	(23,774)
Depreciation and amortisation expenses ¹	(2,396)	993	(1,403)
Occupancy costs	(2,734)	-	(2,734)
Other expenses ²	(5,473)	(113)	(5,586)
Other operating income	48	-	48
Operating profit	(451)	885	434
Finance costs - net	(90)	(1)	(91)
Share of (loss)/profit of associates	87	21	108
Profit before income tax	(454)	905	451
Income tax expense	(274)	35	(239)
Profit for the year from continuing operations	(728)	940	212
Discontinued operations:			
Profit for the year from discontinued operations ³	690	76	766
Profit for the period	(38)	1,016	978
Attributable to:			
Equity holders of the company	(38)	1,016	978
Minority interest	-	-	-
	(38)	1,016	978

¹ Represents the writeback of goodwill amortisation (\$990K) plus writeback of depreciation on intangible assets (\$3K).

² Represents writeoff of capitalised rebranding costs.

³ Represents writeback of goodwill amortisation (\$85K) less long service leave (\$9K).