abano healthcare group limited

ANNUAL REPORT

FINANCIAL STATEMENTS 2017

CONTENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 May 2017 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of 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 Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The directors consider they have taken adequate steps to safeguard the assets of 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 7 to 43, for the year ended 31 May 2017.

The financial statements presented on the following pages were authorised for issue on 25 July 2017.

For and on behalf of the Board

Trevor Janes
CHAIRMAN

Philippa Dunphy
DEPUTY CHAIRMAN

Independent auditor's report

To the shareholders of Abano Healthcare Group Limited

The consolidated financial statements comprise:

- the balance sheet as at 31 May 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the basis of preparation; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Abano Healthcare Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 May 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest, in the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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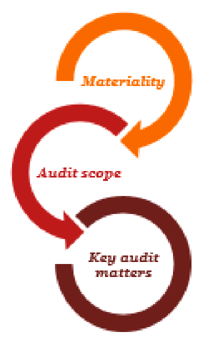
Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $785,000, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Key Audit Matters

- Deferred acquisition consideration
- Goodwill impairment assessment

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

PwC New Zealand completed the audit of both the New Zealand and the Australian operations of the Group. The materiality applied to each component was determined based on the respective scale of the business operations, including other relevant qualitative considerations.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Deferred acquisition consideration The Group has recorded a deferred acquisition consideration (DAC) liability of $2.6 million in relation to the dental practices acquired during fiscal year 2017, with the total liability from acquisitions amounting to $9.9 million as at 31 May 2017. The calculation of the DAC liability is complex as it requires management to estimate the future performance of each dental practice at acquisition date, and at each subsequent period end. The DAC liability comprises: • fixed retention amounts payable to the vendor if the dental practice achieves base earnings before interest, tax, depreciation and amortisation (EBITDA) over a set period; and • earn out liabilities which is management's estimate of additional amounts payable to the vendor based on future performance in excess of the base EBITDA for the acquired dental practice over a set period. Refer to note 15 and note 18 in the consolidated financial statements for further information.	For dental practices acquired during the year, we have reviewed the sale and purchase agreements and confirmed that the DAC liability was appropriately calculated. For dental practices acquired in prior years we set an expectation for the DAC liability based on actual results, and investigated any differences from expectation over a tolerable threshold. For the exceptions identified we obtained evidence to support the DAC liability recorded. For the DAC liability that had been settled during the year, we checked that the calculation of the settlement amount was consistent with the earn-out formula per the contractual terms of the sale and purchase agreement, and agreed the settlement paid to the bank statement. Fixed retention amounts and earn out liabilities are based on forecasted EBITDA, over which we have performed the following procedures: • assessed the historical accuracy of management's EBITDA forecasting by comparing the fiscal year 2017 forecast to actual EBITDA performance; • agreed fiscal year 2018 EBITDA to Board approved budgets; • for amounts due to be settled beyond fiscal year 2018, agreed the forecast EBITDA to the Group's strategic plan; and • considered the reasonableness of key estimates and assumptions made by management when preparing the above budgets and forecasts by comparing: - sales growth rates to historic performance of the dental practices and; - discount rates to the New Zealand Government's 5 year bond rate. Based on our procedures, we noted no material exceptions.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment Total goodwill at 31 May 2017 amounts to $192.8 million and represents 70% of total assets. Management utilised a value in use methodology to determine the value of the cash generating units (CGUs) using discounted cash flows and performed an impairment assessment of the goodwill associated with each CGU. This assessment is complex and includes key estimates and assumptions made by management, particularly in the following areas: • The assessment of CGUs - management has determined that in the majority of cases, each dental practice is a CGU. However, there are cases where a group of practices are considered a single CGU due to them having interdependent cash flows or the merger of practices during the year. • Expected future trading results (revenue growth rate) - management has based these on the Group's strategic plan forecasts approved by the Board. • The discount rate used in the model - management have applied a post-tax rate of 8.2%. • The terminal (long term) growth rate - management have applied a rate of 2%. • Considering the sensitivity of the value in use to changes in key assumptions by determining and forecasting other reasonably possible scenarios and assessing the impact on the value of the CGU. The impairment assessment completed by management calculated the value in use of the CGUs to be higher than the carrying amount. Refer to note 12 in the consolidated financial statements for further information.	We undertook the following procedures: • Considered management's identification of CGUs by gaining an understanding of the business, how it is managed, and the reporting to management and the Board; • Tested the mathematical accuracy of the value in use calculations, including the inputs, and comparing the derived values to the relevant asset carrying values of the CGUs. • Assessed the reasonableness of the key estimates and assumptions below by comparing: - EBITDA growth to historic performance of the CGU; - the terminal growth rate to the average growth rate for the dental sector in which the CGUs operate; and - the discount rate to the market expectation of the healthcare sector in which the CGUs operate. • Performed sensitivity analysis on the key assumptions: the revenue growth rates, terminal growth rate and the discount rate, using reasonably possible scenarios to see if there is any material impact on the value of the CGUs. • Reviewed the disclosure in the financial statements to ensure compliance with the requirements of NZ IFRS. From our procedures, no material exceptions noted.

Information other than the financial statements and auditor's report
The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements
The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to
This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Leopino (Leo) Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 July 2017

Auckland

INCOME STATEMENT

For the year ended 31 May 2017

	NOTE	TOTAL 2017 $000	TOTAL 2016 $000
Revenue	4	233,532	213,744
Patient consumables and cost of products sold		(34,711)	(32,290)
Employee benefits		(127,574)	(117,535)
Depreciation and amortisation		(10,226)	(9,735)
Occupancy costs		(18,012)	(16,377)
Acquisition and transaction costs		(718)	(649)
Other operating expenses	5	(22,788)	(21,752)
Other operating income	6	1,652	1,452
Operating profit	1	**21,155**	**16,858**
Finance income	7	161	187
Finance expenses	7	(5,248)	(6,253)
Fair value amortisation and revaluation of deferred acquisition consideration	7/15	77	63
Fair value amortisation of provisions	7/27	(26)	(23)
Realised foreign exchange (loss)/gain		(35)	11
Impairment of software	22	-	(79)
Gain on sale of jointly controlled entity/subsidiary	10/11	-	20,333
Share of profit of jointly controlled entity	11	-	724
Profit before income tax		**16,084**	**31,821**
Income tax expense	19	(4,954)	(3,346)
Profit for the year		**11,130**	**28,475**
Attributable to :			
Equity holders of the Company share of profit		**10,879**	**28,442**
Non-controlling interests share of profit		251	33
		11,130	**28,475**
Earnings per share (cents)	2	50.79	134.68

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2017

	2017 $000	2016 $000
Profit for the period - continuing	11,130	7,418
Profit for the period - discontinued	-	21,057
Profit for the year	**11,130**	**28,475**
Other comprehensive income		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges, net of tax	(373)	(596)
Exchange differences on translating foreign operations	(1,205)	(582)
Total comprehensive income for the year	**9,552**	**27,297**
Total comprehensive income attributable to:		
Equity holders of the Company	9,301	27,264
Non-controlling interests	251	33
	9,552	**27,297**

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 20.

Discontinued operations relate to the gain on sale of the Company's equity accounted investment in Bay International of $20.9m (refer note 11) and deferred acquisition consideration of $0.2m on sale of Orthotics business in 2015 financial year (refer note 10).

All other comprehensive income items relate to continuing operations.

BALANCE SHEET

As at 31 May 2017

	NOTE	2017 $000	2016 $000
ASSETS			
Non-current assets			
Property, plant and equipment	21	48,613	46,397
Goodwill	12	192,790	170,542
Other intangible assets	22	5,311	3,351
Non-current receivables	23	2,466	2,494
Deferred tax asset	20	3,036	3,049
Total non-current assets		**252,216**	**225,833**
Current assets			
Cash and cash equivalents		7,055	4,250
Current trade and other receivables	23	7,688	37,434
Inventories	24	6,769	6,136
Total current assets		**21,512**	**47,820**
TOTAL ASSETS		**273,728**	**273,653**
EQUITY			
Share capital	13	47,604	45,924
Foreign currency translation reserve		(6,075)	(4,870)
Cash flow hedge reserve		(2,856)	(2,483)
Retained earnings		78,885	75,681
Total equity attributable to equity holders of the Company		**117,558**	**114,252**
Non-controlling interest		1,001	776
TOTAL EQUITY		**118,559**	**115,028**
LIABILITIES			
Non-current liabilities			
Borrowings	14	110,651	117,784
Non-current payables	25	1,428	2,674
Deferred tax liabilities	20	210	153
Derivative financial instruments	17	3,815	3,192
Deferred acquisition consideration	15	7,186	6,893
Provisions	27	647	588
Total non-current liabilities		**123,937**	**131,284**
Current liabilities			
Derivative financial instruments	17	213	306
Current income tax liabilities		797	439
Deferred acquisition consideration	15	2,676	1,447
Trade and other payables	25	27,423	25,104
Provisions	27	123	45
Total current liabilities		**31,232**	**27,341**
TOTAL LIABILITIES		**155,169**	**158,625**
TOTAL EQUITY AND LIABILITIES		**273,728**	**273,653**

ABANO HEALTHCARE GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2017

	NOTE	SHARE CAPITAL $000	TREASURY SHARES $000	FOREIGN EXCHANGE TRANSLATION RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
Balance at 1 June 2015		**43,300**	**-**	**(4,288)**	**(1,887)**	**52,478**	**89,603**	**770**	**90,373**
Comprehensive Income									
Profit/(loss) for the year		-	-	-	-	28,442	28,442	33	28,475
Other comprehensive income									
Cash flow hedge movement									
Fair values gains		-	-	-	(827)	-	(827)	-	(827)
Tax liability on fair value gains		-	-	-	231	-	231	-	231
Foreign exchange translation reserve		-	-	(582)	-	-	(582)	-	(582)
Total other comprehensive income		-	-	(582)	(596)	-	(1,178)	-	(1,178)
Total comprehensive income		**-**	**-**	**(582)**	**(596)**	**28,442**	**27,264**	**33**	**27,297**
Transactions with owners									
Dividends paid	3	-	-	-	-	(5,314)	(5,314)	(27)	(5,341)
Dividend reinvestment plan	3/13	2,507	-	-	-	-	2,507	-	2,507
Executive compensation expense	8	117	-	-	-	-	117	-	117
2015 share scheme - shares issued		352	-	-	-	-	352	-	352
2015 share scheme - transfer of shares to treasury stock		-	(352)	-	-	-	(352)	-	(352)
Foreign investor tax credits recognised		-	-	-	-	75	75	-	75
Total transactions with owners		**2,976**	**(352)**	**-**	**-**	**(5,239)**	**(2,615)**	**(27)**	**(2,642)**
Balance at 31 May 2016		**46,276**	**(352)**	**(4,870)**	**(2,483)**	**75,681**	**114,252**	**776**	**115,028**
Balance at 1 June 2016		**46,276**	**(352)**	**(4,870)**	**(2,483)**	**75,681**	**114,252**	**776**	**115,028**
Comprehensive Income									
Profit/(loss) for the year		-	-	-	-	10,879	10,879	251	11,130
Other comprehensive income									
Cash flow hedge movement									
Fair values gains		-	-	-	(530)	-	(530)	-	(530)
Tax liability on fair value gains		-	-	-	157	-	157	-	157
Foreign exchange translation reserve		-	-	(1,205)	-	-	(1,205)	-	(1,205)
Total other comprehensive income		-	-	(1,205)	(373)	-	(1,578)	-	(1,578)
Total comprehensive income		**-**	**-**	**(1,205)**	**(373)**	**10,879**	**9,301**	**251**	**9,552**
Transactions with owners									
Dividends paid	3	-	-	-	-	(7,705)	(7,705)	(26)	(7,731)
Dividend reinvestment plan	3/13	1,563	-	-	-	-	1,563	-	1,563
Executive compensation expense	8	117	-	-	-	-	117	-	117
Foreign investor tax credits recognised		-	-	-	-	30	30	-	30
Total transactions with owners		**1,680**	**-**	**-**	**-**	**(7,675)**	**(5,995)**	**(26)**	**(6,021)**
Balance at 31 May 2017		**47,956**	**(352)**	**(6,075)**	**(2,856)**	**78,885**	**117,558**	**1,001**	**118,559**

STATEMENT OF CASH FLOWS

For the year ended 31 May 2017

	NOTE	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from customers		261,246	241,516
Payments to suppliers and employees		(229,236)	(211,512)
Interest received		59	70
Interest paid		(5,263)	(6,177)
Income tax paid		(4,354)	(3,852)
Net cash generated from operating activities		**22,452**	**20,045**
Cash flows from investing activities			
Sale of property, plant and equipment		-	304
Sale of interest in jointly controlled entities	10/11	32,000	175
Purchase of property, plant and equipment	21	(11,254)	(13,831)
Purchase of businesses	9/15	(27,387)	(31,170)
Dividends paid to non-controlling interests		(26)	(27)
Other investing cash flows		128	(57)
Discontinued operations		-	1,133
Net cash generated/(used) in investing activities		**(6,539)**	**(43,473)**
Cash flows from financing activities			
Proceeds from borrowings	14	34,880	46,680
Repayment of borrowings		(41,988)	(20,117)
Equity raised - executive share scheme		-	511
Equity raised - dividend reinvestment plan	13	1,563	2,507
Dividends paid		(7,705)	(5,314)
Net cash generated/(used) in financing activities		**(13,250)**	**24,267**
Net increase in cash held		**2,663**	**839**
Cash at beginning of the period		4,250	3,904
Net increase in cash held		2,663	839
Exchange gain/(loss) on net assets held by foreign subsidaries		142	(493)
Cash at end of period		**7,055**	**4,250**
Cash comprises:			
Cash at bank		7,055	4,250
		7,055	**4,250**

ABANO HEALTHCARE GROUP LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 May 2017

RECONCILIATION OF OPERATING CASH FLOWS

	2017 $000	2016 $000
Profit for the year	**10,879**	**28,442**
Non-cash items:		
Depreciation	9,528	8,932
Amortisation of intangible assets	698	803
Impairment of software	-	79
Recognition of deferred tax asset	141	95
Fair value amortisation and revaluation of deferred acquisition consideration	(77)	(63)
Fair value amortisation of provisions	26	23
Foreign investor tax credits recognised	30	75
Executive compensation expense	117	117
Share of surplus retained by non-controlling interests	251	33
	10,714	**10,094**
Movement in working capital:		
(Increase)/decrease in trade and other receivables	(2,341)	880
Increase/(decrease) in trade and other payables	1,924	1,166
(Increase)/decrease in inventories	475	(233)
	58	**1,813**
Items classified as investing activities:		
Realised loss on sale of property, plant and equipment	83	104
Realised gain on sale of jointly controlled entity	-	(20,333)
Acquisition and divestment costs	718	649
Share of profit in jointly controlled entity	-	(724)
	801	**(20,304)**
Net cash flows from operating activities	**22,452**	**20,045**

BASIS OF PREPARATION

For the year ended 31 May 2017

GENERAL INFORMATION

Abano Healthcare Group Limited (Abano or 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 2017, comprise the Company and its subsidiaries (together the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements are presented in New Zealand dollars rounded to the nearest thousand.

Certain comparative amounts have been reclassified in order to conform with the current year's presentation.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Company is registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 (FMC Act 2013). The Company is also listed on the New Zealand Stock Exchange (NZX). The consolidated financial statements have been prepared in accordance with the requirements of Part 7 of the FMC Act 2013.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (GAAP), incorporating New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements comply with NZ IFRS, other applicable New Zealand Financial Reporting Standards, and authoritative notices that are applicable to entities that apply NZ IFRS. The Group has designated itself as a profit-oriented entity for the purposes of complying with NZ IFRS. The Group financial statements also comply with International Financial Reporting Standards (IFRS).

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

The significant accounting policies applied in the preparation of these financial statements are provided throughout the notes to the financial statements.

The financial statements were approved by the Board of Directors (the Board) on 25 July 2017.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the foreign operations are measured using the currency of the primary economic environment in which it operates (the functional currency).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges.

Foreign operations

The results and Balance Sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the closing rate.

DISCONTINUED OPERATIONS

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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In applying the accounting policies management continually makes judgements, estimates and assumptions based on historical experience and various other factors, including expectations of future events that may have an impact on the reported financial statements of the Group. All judgements estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions and the differences may be material. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

BASIS OF PREPARATION

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

Information about assumptions and estimation uncertainties that have a significant risk of material adjustment are described in the following notes:

- Impairment testing of goodwill (note 12).
- Fair value measurement of financial instruments (notes 15 and 18).
- Estimation of useful lives of assets (notes 21 and 22).

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

There have been no changes in accounting standards that would have a material impact on the financial statements.

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

A number of new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) are effective for future periods and which the Group will adopt when they become effective. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- **NZ IFRS 9, 'Financial instruments', (effective for 31 May 2019 reporting period).** NZ IFRS 9 introduces new requirements for classification, measurement and de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting. NZ IFRS 9 includes a revised model for classification and measurement and may result in changes to financial statements disclosures. Early adoption is permitted. The Group has begun the process of assessing the potential impacts of NZ IFRS 9 and expects to report more detailed information in the 2018 financial statements.
- **NZ IFRS 15, 'Revenue from contracts with customers', (effective for 31 May 2019 reporting period).** NZ IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and related Interpretations. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. NZ IFRS 15 has far more prescriptive guidance than in the superseded standards and related interpretations and this may result in substantial changes to the timing of revenue recognition for some entities. Early adoption of NZ IFRS 15 is permitted. The Group has begun the process of assessing the potential impacts of NZ IFRS 15. The Group anticipates the application of NZ IFRS 15 may have an impact on recognition of reported revenue versus gross revenue. More detailed information will be provided in the 2018 financial statements.
- **NZ IFRS 16, 'Leases', (effective for 31 May 2020 reporting period).** NZ IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and supersedes NZ IAS 17. NZ IFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. A lessee shall either apply NZ IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying NZ IFRS 6 as an adjustment to opening equity at the date of initial application. Early adoption of NZ IFRS 16 is permitted if NZ IFRS 15 Revenue from Contracts with Customers has also been applied. The Group has begun the process of assessing the potential impacts of NZ IFRS 16 and currently expects to apply the retrospective approach to calculate the right of use asset and lease liability. The Group will provide an update once the full impact of NZ IFRS 16 and appropriate timing of adoption is known.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2017

NOTES TO THE FINANCIAL STATEMENTS

OPERATIONS

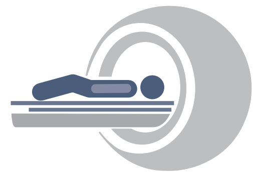
1. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

Management has determined the operating segments based on the reports reviewed by the Board. In addition to GAAP measures, the Board also uses non-GAAP measures to assess the commercial performance of the segments. The reportable operating segments have been determined as:

DENTAL

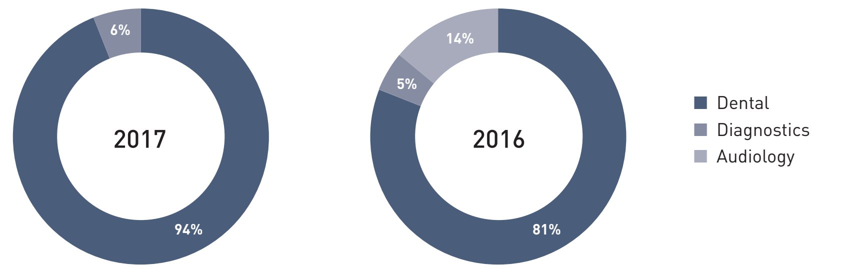
This sector provides a full range of general and specialist dental work, including complex restorative and cosmetic dental services. The majority of revenue comes from private patients and the sector has businesses operating in New Zealand and Australia. Dental is the Group's largest business and generated 94.1% of Abano's gross revenues during the 2017 financial year with 205 practices as at 31 May 2017.



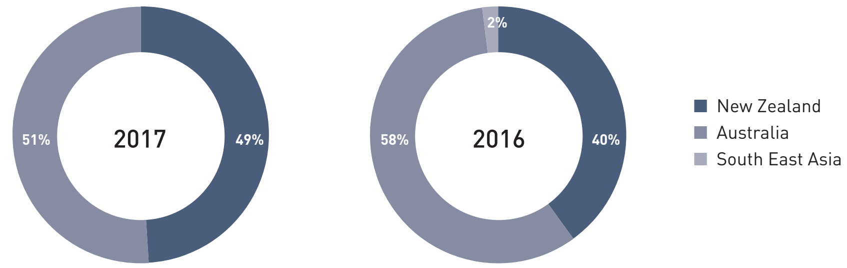
DIAGNOSTICS

This sector comprises Radiology businesses operating in New Zealand. Radiology provides full modality scanning services including MRI Scanning, CT Scanning, PET CT Scanning, Ultrasound Scanning, Mammography and Interventional Radiology. The majority of revenue comes from private patients with the remainder from DHB, ACC and MOH contracts.

Revenue by Segment



Revenue by Region



Gross revenue includes Australian dental revenues before payment of dentists' commissions. For the comparative period, gross revenue also includes revenue from the equity accounted Bay Group to 30 April 2016 (refer note 11).

ENTITY WIDE DISCLOSURES

	NEW ZEALAND		AUSTRALIA		SOUTH EAST ASIA		TOTAL	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Revenues from external customers[1]	137,208	120,406	96,324	128,204	-	5,291	233,532	253,901
Total non-current assets	124,894	111,606	127,322	114,227	-	-	252,216	225,833

[1] For the comparative period, revenue includes revenue from the equity accounted Bay Group to 30 April 2016 (refer note 11).

During the years ended 31 May 2016 and 2017, no single external customer accounted for more than 10% of revenue.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING (CONTINUED)

For the year ended May 2017	Dental $000	Diagnostics $000	Audiology[1] $000	Corporate $000	Segment Total $000	Equity Account for Audiology $000	Reported Total $000
Gross revenue [2]	262,287	16,392	-	-	278,679	-	278,679
Revenue	217,140	16,392	-	-	233,532	-	233,532
Earnings before interest, tax, depreciation and amortisation (EBITDA)	30,934	3,406	-	(2,959)	31,381	-	31,381
Depreciation and amortisation	(8,096)	(2,013)	-	(117)	(10,226)	-	(10,226)
Operating profit	22,838	1,393	-	(3,076)	21,155	-	**21,155**
Net financing costs							(5,036)
Realised foreign exchange loss							(35)
Net profit before tax							**16,084**
Acquisition and transaction costs included in EBITDA	718	-	-	-	718	-	718
TOTAL ASSETS	**248,407**	**19,010**	**-**	**6,311**	**273,728**	**-**	**273,728**
TOTAL LIABILITIES	**101,877**	**3,285**	**-**	**50,007**	**155,169**	**-**	**155,169**
CAPITAL EXPENDITURE	**10,881**	**505**	**-**	**(10)**	**11,376**	**-**	**11,376**

For the year ended May 2016	Dental $000	Diagnostics $000	Audiology $000	Corporate $000	Segment Total $000	Equity Account for Audiology $000	Reported Total $000
Gross revenue [2,3]	241,893	15,013	40,157	-	297,063	(40,157)	256,906
Revenue	198,731	15,013	40,157	-	253,901	(40,157)	213,744
Earnings before interest, tax, depreciation and amortisation (EBITDA)	27,072	2,445	2,266	(2,924)	28,859	(2,266)	26,593
Depreciation and amortisation	(7,701)	(1,954)	(862)	(80)	(10,597)	862	(9,735)
Operating profit	19,371	491	1,404	(3,004)	18,262	(1,404)	**16,858**
Net financing costs							(6,026)
Realised foreign exchange gain							11
Share of profit of jointly controlled entity							724
Impairment of software							(79)
Gain on sale of jointly controlled entity/ subsidiary							20,333
Net profit before tax							**31,821**
Acquisition and transaction costs included in EBITDA	649	-	-	-	649	-	649
TOTAL ASSETS	**218,465**	**20,738**	**-**	**34,450**	**273,653**	**-**	**273,653**
TOTAL LIABILITIES	**89,259**	**4,027**	**-**	**65,339**	**158,625**	**-**	**158,625**
CAPITAL EXPENDITURE	**11,573**	**1,900**	**518**	**361**	**14,352**	**(518)**	**13,834**

1 There is no Audiology segment in 2017 following the sale of the Company's interest in Bay International Limited (refer note 11).
2 Gross revenue includes Australian dental revenues before payment of dentists' commissions.
3 For the comparative period, gross revenue also includes revenue from the equity accounted Bay Group to 30 April 2016 (refer note 11).

NOTES TO THE FINANCIAL STATEMENTS

2. EARNINGS PER SHARE

	2017 $000	2016 $000
Basic and diluted 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	10,879	7,385
Discontinued operations	-	21,057
Weighted average number of ordinary shares on issue	21,421	21,119
Basic earnings per share (cents)		
Continuing operations	50.79	34.97
Discontinued operations	-	99.71
	50.79	**134.68**

3. DIVIDENDS - ORDINARY SHARES

	2017 Cents	2016 Cents	2017 $000	2016 $000
Interim dividend for the year ended 31 May 2017	16.0		3,442	-
Final dividend for the year ended 31 May 2016	20.0		4,263	-
Interim dividend for the year ended 31 May 2016	-	10.0	-	2,138
Final dividend for the year ended 31 May 2015	-	15.0	-	3,176
Dividends paid to non-controlling interests			26	27
	36.0	**25.0**	**7,731**	**5,341**

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. The dividends were fully imputed.

Supplementary dividends

Supplementary dividends of $30,140 (2016: $75,312) were paid to shareholders not tax resident in New Zealand of which the Company received a foreign investor tax credit entitlement

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the year ended 31 May 2017, 194,282 shares with a total value of $1.57M were issued in lieu of cash dividends (2016: $2.53M).

4. REVENUE

	2017 $000	2016 $000
Sale of goods	1,325	1,771
Services rendered	232,207	211,973
	233,532	**213,744**

Policies

Revenue includes the fair value of the consideration received or receivable for the sale of services or products, net of sales taxes and other indirect taxes, rebates and discounts.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will accrue to the Group, and when the following criteria are met:

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

NOTES TO THE FINANCIAL STATEMENTS

5. OTHER OPERATING EXPENSES

	2017 $000	2016 $000
Operating expenses include:		
Directors' fees [1]	483	444
Donations	22	47
Net loss on sale of plant & equipment	83	104
Rental expense on operating leases	13,572	12,249
Auditors' fees		
Audit services - PwC New Zealand	431	271
Audit services - PwC Australia	-	105
Other services provided	-	31

[1] Directors' fees exclude $74,400 paid to Directors for additional workload due to takeover activity. These fees have been invoiced to Healthcare Partners Holdings Limited for recovery under the Takeovers Code.

6. OTHER OPERATING INCOME

	2017 $000	2016 $000
Operating income includes:		
Rental income	682	514
Sundry other income	970	938
	1,652	**1,452**

7. NET FINANCING COSTS

	2017 $000	2016 $000
Financial income		
Cash and cash equivalents	161	187
	161	**187**
Financial expenses		
Bank borrowings	(5,087)	(5,966)
Other borrowings	(161)	(287)
Fair value amortisation and revaluation of deferred acquisition consideration	77	63
Fair value amortisation of provisions	(26)	(23)
	(5,197)	**(6,213)**
Net financing costs	**(5,036)**	**(6,026)**

Policies

Interest expense and interest income are recognised on a time-proportion basis using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

8. SHARE BASED COMPENSATION

Policies

The Group operates an equity settled, share based compensation plan. The fair value of the plan is recognised as an employee expense and is spread over the vesting period, based on the Group's estimate of the shares that will vest.

Judgements

During each period end that the 2015 Executive Share Scheme is in place, the Board will need to estimate whether the earnings per share (EPS) compound annual growth rate (CAGR) will be met for the entire vesting period.

2015 Executive Share Scheme

On 21 August 2015 the Board approved the Executive Share Scheme (the Scheme) to assist in the motivation, retention and reward of Executives. The Board believes that long term performance based share schemes are desirable to ensure there is an alignment of Executives' interests and efforts with the interests of shareholders. The Scheme provides for Executives to be issued shares (Share Scheme Shares), for which the Company provides an interest free loan.

Under the Scheme on 21 August 2015 the Company issued 45,860 new shares to Richard Keys, Chief Executive Officer, (the executive), at the five day volume weighted average price over the previous five trading days of $7.67 per share (being the same price as shares issued on the same day under the Company's Dividend Reinvestment Plan, but without any discount) and provided financial assistance, in the form of an interest free loan of $351,750 to the executive, for the purpose of subscribing for the Share Scheme Shares. The loan is repayable when the shares vest.

Share Scheme Shares will be forfeited if the performance criteria set out below are not met over a three year vesting period, or the executive does not remain in employment with the Company for the term of the Scheme. Until the end of the vesting period, the executive is restricted from trading the shares and any dividends received must first be applied to repayment of any outstanding loan balance.

Vesting of the shares requires satisfaction of Underlying NPAT[1] EPS performance hurdles (measured using the 31 May 2015 year as the base year) that must be met for each of the three years independently or cumulatively. The number of shares vesting will be determined on a sliding scale from nil vesting if EPS CAGR is less than 15% to 100% vesting for an EPS CAGR of 22%.

Shares will vest based on the performance targets being achieved, to a maximum of shares equivalent to $351,750 over the three year vesting period.

The Company has a call option over all Share Scheme Shares. If the performance hurdles are not achieved or the executive's employment terminates before the end of the vesting period, the call option will be exercised for a price equal to the outstanding loan balance.

The executive has an equal and opposite put option over the Share Scheme Shares which can be exercised in relation to forfeited shares at the same price as the put option if the call option is not exercised.

The executive cannot put the Share Scheme Shares back to the Company if performance targets are achieved, and the call option cannot be exercised in these circumstances. If the performance targets are achieved, a performance bonus will be paid to the executive that must be applied to settle the loan balance. Any excess of the performance bonus (net of tax) above the outstanding loan balance will be paid in cash to the executive. In the event of a deficit arising because the bonus is insufficient to settle the loan in full, this must be settled by the executive.

The fair value of the executive's entitlement to the Share Scheme Shares is the issue price of $7.67 being the volume weighted average price per share at the grant date of 21 August 2015.

The share based payment expense of $351,750 will be amortised over the period of service. The total to be expensed is dependent on the expectation, at a point in time, that the performance hurdles will be met. The Board's expectation at 31 May 2017 is that it is probable the EPS CAGR of 22% will be met over the three year vesting period and thus $117,251 has been charged to the Income Statement as executive remuneration in the 2017 financial year.

[1] Underlying Net Profit After Tax is a non-GAAP financial measure and excludes gains/losses arising on sale of businesses, IFRS adjustments and impairments, including their tax effect. It is the measure used within the Company to evaluate performance, establish strategic goals and to allocate resources.

NOTES TO THE FINANCIAL STATEMENTS

INVESTMENTS

The Group invests into businesses within the private healthcare and medical services sector.

Policies

The acquisition method of accounting is used to account for the acquisition of businesses 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. Costs directly attributable to the acquisition are expensed as incurred.

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 non-controlling 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 business acquired, the difference is recognised directly in the Income Statement.

9. ACQUISITION OF BUSINESSES

During the year the Group acquired the following businesses:

Murray Dental (Christchurch)	30 Jun 16	Luytwyche Dental (QLD)	16 Dec 16
Toothworkx (QLD)	30 Jun 16	Hodgson and Muir Orthodontics (Auckland)	20 Dec 16
Brendan O'Dea (Christchurch)	1 Jul 16	Orthodontix Merivale (Christchurch)	4 Jan 17
Tranquil Dental (QLD)	21 Jul 16	Edwards Family Dental (QLD)	27 Jan 17
Knox Dental (Dunedin)	1 Aug 16	George Hunt Dental (Wellington)	31 Jan 17
Plateau Dental Care (NSW)	3 Aug 16	North Sydney Dental (NSW)	20 Feb 17
Kieran O'Neill Orthodontics (Invercargill)	12 Aug 16	Kool Dental (Auckland)	28 Feb 17
Darfield Dental (Darfield)	9 Sep 16	Healy Dental (Auckland)	28 Feb 17
Newcastle Dental Laser Centre (QLD)	26 Sep 16	Rodney Park (Rotorua)	31 Mar 17
The Ortho Practice (NSW)	13 Oct 16	Lotus Dental (NSW)	28 Apr 17
Leamington Dental (Cambridge)	1 Nov 16	White Smile Dental (Auckland)	31 May 17
Coastlands Dental Health Centre (Paraparaumu)	7 Dec 16		

Summary of the effect of the acquisitions:

	NOTE	DENTAL $000
Fair value of net assets acquired:		
Current assets		1,178
Current liabilities		(983)
Non-current assets		3,641
Non-current liabilities		(22)
Goodwill on acquisition	12	24,003
Total consideration		**27,817**
Cash paid		25,257
Deferred acquisition consideration	15	2,560
Total consideration		**27,817**

Dental Practice Acquisitions

During the 2017 financial year, 23 businesses were acquired. These businesses operated dental practices in 27 different locations.

The fair value of the net assets acquired is considered to be provisional until the end of the twelve months following the date of acquisition of each dental practice when the initial accounting for the acquisition will be complete.

The goodwill is attributable to the economies of scale expected from combining the operations of the Group.

The acquired businesses contributed revenue and profit before tax, excluding depreciation, of $15.0M and $3.9M respectively since date of acquisition to 31 May 2017.

The annualised revenue and profit before tax, excluding depreciation, had the acquired businesses and assets been acquired at the beginning of the year are estimated at $28.1M and $6.8M respectively.

The Group performs a sensitivity analysis of the fair value of the deferred acquisition consideration as set out in notes 15 and 18.

ABANO HEALTHCARE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

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

NAME OF ENTITY	PRINCIPAL ACTIVITY	LEGAL INTEREST HELD BY GROUP 2017	2016
Abano Dental Limited	Dental	100%	100%
Kidz Teeth Limited	Dental	70%	70%
Lumino Dental Limited	Dental	100%	100%
Maven Dental Group Pty Limited	Dental	100%	100%
Theo Baisi Pty Limited [1]	Dental	100%	-
Abano Radiology Limited	Diagnostic	100%	100%
Ascot Radiology Limited	Diagnostic	71%	71%

[1] Maven Dental Group Pty Limited acquired Theo Baisi Pty Limited on 13 October 2016 and plans to liquidate the company in the 2018 financial year.

Policies

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

Balance dates

The balance date of all subsidiaries is 31 May, except Theo Baisi Pty Limited (30 June balance date).

Geography

All subsidiaries are incorporated in New Zealand, except Maven Dental Group Pty Limited and Theo Baisi Pty Limited which are incorporated in Australia.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. When disposals to non-controlling interests results in a change in control, any gains and losses for the Group are recorded in the Income Statement. If disposals do not result in a change in control, any gain or loss is recognised in the Statement of Changes in Equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Disposal of Orthotics business in 2015

On 30 January 2015 the Company sold its New Zealand orthotics business, Orthotic Centre (N.Z.) Limited to Orthotic Group Holdings Limited. During 2016, the Company received a further deferred contingent cash payment of $175,051.

Increase in share capital of subsidiary in prior year

The Company reviews the debt/equity position of its offshore subsidiaries to ensure they are within safe harbour limits for tax deductibility of interest payments in the offshore country. On 25 May 2016 Maven Dental Group Pty Limited (Maven) issued Abano Dental Group Limited 2,193,243 shares for a total of A$13M consideration. This retained Maven's debt/equity position within the tax safe harbour limit for the financial year ended 31 May 2016.

11. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

Policies

Jointly controlled entities are entities over which the Group has contractually agreed sharing of control over the economic activity of that entity. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Investments in jointly controlled entities are accounted for in the Group financial statements using the equity method whereby the Group's share of the recognised gains and losses of jointly controlled entities are included in the consolidated Income Statement and adjusted against the carrying amount of the investment. The Group's investments in jointly controlled entities are initially recorded at cost and include goodwill (net of any impairment losses) identified on acquisition.

Disposal of Investment in Bay International Limited

On 23 May 2016 the Company announced it had entered into an agreement to sell its 50% shareholding in Bay International Limited for $32M to interests associated with its joint venture partner, Peter Hutson, as a result of those interests exercising their existing pre-emptive rights under the Bay International Limited shareholders' deed. On 27 May 2016, the sale became unconditional resulting in a gain on sale of $20.2M and receivable of $32M being recognised. The cash settlement of $32M was received on 17 June 2016.

Prior to disposal, the Group accounted for its interests in audiology in Australia and Asia under the equity method recognising 50% of profit of Bay International Limited to 30 April 2016 in the Income Statement. This amount, together with gain on sale are disclosed as discontinued operations in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

12. GOODWILL

	NOTE	2017 $000	2016 $000
Opening net book value		170,542	144,944
Acquired through acquisition of businesses	9	24,003	26,040
Finalisation of provisional goodwill measurement period adjustments		471	(12)
Foreign exchange movement		(2,226)	(86)
Fair value movement		-	(344)
Closing net book value		**192,790**	**170,542**
Cost		193,023	170,775
Accumulated amortisation		(233)	(233)
Net book value		**192,790**	**170,542**

Goodwill by Segment:

	2017 $000	2016 $000
Diagnostics	5,850	5,850
Dental:		
- New Zealand	80,952	68,539
- Australia	105,988	96,153
	192,790	**170,542**

Policies

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 business or subsidiary at the date of acquisition.

Goodwill on acquisitions of businesses or subsidiaries is initially recognised at cost and is subsequently measured at cost less any accumulated impairment losses.

As Goodwill has an indefinite life, it is tested annually for impairment. For the purpose of impairment testing, goodwill is allocated to the lowest level for which there are separately identifiable cash flows (cash generating units or CGUs). The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

Judgements

To assess impairment, management must estimate the future cash flows of operating segments including the CGUs that make up those segments. For the dental group the CGUs are considered to be the separately acquired dental businesses or the dental practices that have been merged. This entails making estimates for:

- the expected revenue growth rate, including terminal growth rate;
- the appropriate discount rate to apply when discounting future cash flows.

Assumptions

The recoverable amount of a CGU is determined based on the higher of fair value less costs of disposal or value in use calculations. These value in use calculations use cash flow projections derived from the Group's strategic plan forecasts. These forecasts cover a four year period with growth rates as follows:

	Revenue growth rates over the forecast period	Terminal growth rate	Post tax discount rate	Goodwill carrying amount $000	Headroom $000
Acquired Dental businesses and merged practices	2.5% - 5%	2%	8.2%	174,918	288,498
Acquired Dental businesses and merged practices specifically identified for growth and expansion	7% - 40%	2%	8.2%	12,022	6,518
Radiology	5%	2%	8.2%	5,850	19,020
Total				192,790	

Cash flows beyond the four year period are extrapolated using the estimated terminal growth rate. The growth rate does not exceed the long term average growth rate for the sectors in which the CGUs operate.

NOTES TO THE FINANCIAL STATEMENTS

12. GOODWILL (CONTINUED)

Sensitivities

A sensitivity analysis has been performed on the key assumptions used to determine the value in use for each CGU as at 31 May 2017.

Other than as discussed below, management believes that no reasonably probable change in any of the key assumptions would cause the carrying value of any goodwill with an indefinite useful life to exceed its recoverable amount.

It is possible that a change in key assumptions could cause the impairment of goodwill in two dental practices. Sensitivity has been applied using a symmetrical movement of -/+ 4% in the revenue growth rate (-4% being in the range of 1% to 10.4% and +4% being in the range of 9% to 18.4%). The Group considers this -/+ 4% movement to be a reasonable assumption for sensitivity analysis as this reflects the Group's Australian subsidiary's same store growth movement of negative average of 4% for FY16 and FY17.

The table below shows the impact of a -/+ 4% movement on two practices identified as being at risk under our standard sensitivity analysis. For every additional 1% negative movement for the practices identified as at risk below, the movement would lead to a further reduction in headroom by approximately $230,000.

	Headroom $000	Revenue growth rate ranges over the forecast period	Discount rate	Reasonably possible decrease in revenue growth rate	Impairment $000	Reasonably possible increase in revenue growth rate	Adjusted Headroom $000
At risk practices	734	5% - 14.4%	8.2%	(4.0%)	(255)	4%	1,792

Conclusion

The value in use calculations support the carrying amount of the recorded goodwill at year end and no impairment is required. Other than the two dental practices identified above, the Group does not consider any reasonably possible change in the assumptions applied to goodwill would reduce the recoverable amounts below their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

FUNDING

13. SHARE CAPITAL

	NUMBER OF SHARES 000	ORDINARY SHARES $000	TREASURY SHARES $000	TOTAL $000
At 31 May 2015	20,875	43,300	-	43,300
Share option expense	-	117	-	117
Dividend reinvestment plan - shares issued	350	2,507	-	2,507
2015 Executive share scheme - shares issued	46	352	-	352
2015 Executive share scheme - transfer to treasury stock	-	-	(352)	(352)
At 31 May 2016	**21,271**	**46,276**	**(352)**	**45,924**
Share option expense	-	117	-	117
Dividend reinvestment plan - shares issued	194	1,563	-	1,563
At 31 May 2017	**21,465**	**47,956**	**(352)**	**47,604**

Policies	Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.
Shares on issue	As at 31 May 2017 there were 21,465,266 ordinary shares on issue (2016: 21,270,984). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. There is no other class of share issued.
Dividend Reinvestment Plan	During the year, shares were issued under the Dividend Reinvestment Plan (DRP). The issue price was determined, in accordance with the DRP, as the volume weighted average sale price for all Abano shares sold on the NZX over the five trading days immediately following the record date, less a 2.5% discount. The DRP was applied to the dividend paid on 22 August 2016 (2016: 21 August 2015). 194,282 (2016: 199,944) shares were issued at $8.09 (2016: $7.48) per share. The DRP was suspended for the payment of the interim dividend on 23 January 2017 as the Directors of Healthcare Partners Holdings Limited refused to allow the DRP to be offered during the period their takeover offer was in the market.
Executive Share Scheme in prior year	During the prior year, the Board approved the 2015 Executive Share Scheme (the Scheme). On 21 August 2015, the Company issued 45,860 new shares to Richard Keys, Chief Executive Officer (refer note 8).

14. BORROWINGS

	2017 $000	2016 $000
Non-current borrowings		
Secured bank loans	110,651	117,784
	110,651	**117,784**

During 2017 the Group extended each of its loan facilities with ASB Bank Limited (ASB) by one year.

NOTES TO THE FINANCIAL STATEMENTS

14. BORROWINGS (CONTINUED)

The 25 February 2013 Loan Facility Agreement and the 28 May 2013 Acquisition Loan Facility Agreement (together referred to as the Maven Facility) comprise the following terms and tranches:

REVOLVING TRANCHES	CURRENCY	AUD FACILITY AUD$000	MATURITY DATE	FACILITY $000	DRAWN AS OF 31 MAY 2017	UNDRAWN AS OF 31 MAY 2017	APPLICABLE INTEREST RATE AS OF 31 MAY 2017
Revolving Credit Facility Tranche A	AUD	15,000	1 June 2019	15,760	15,760	-	1 month BBSY + 1.02%
Revolving Credit Facility Tranche B	AUD	30,000	30 June 2020	31,519	31,519	-	1 month BBSY + 1.11%
Revolving Credit Facility Tranche C	AUD	30,000	1 July 2021	31,519	13,922	17,597	1 month BBSY + 1.20%
				78,798	61,201	17,597	

The 30 April 2013 Abano Refinance Loan Facility Agreement (Abano Facility) comprises the following terms and tranches:

REVOLVING TRANCHES	CURRENCY	MATURITY DATE	FACILITY $000	DRAWN AS OF 31 MAY 2017	UNDRAWN AS OF 31 MAY 2017	APPLICABLE INTEREST RATE AS OF 31 MAY 2017
Revolving Credit Facility Tranche A	NZD, AUD, HKD, SGD	15 December 2020	30,000	18,663	11,337	3 month BKBM + 1.11%
Revolving Credit Facility Tranche B	NZD, AUD, HKD, SGD	31 March 2020	30,787	30,787	-	3 month BKBM + 1.02%
			60,787	49,450	11,337	

Policies	**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. **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. All borrowing costs are expensed.
Facilities	The Facilities are secured by way of a general security agreement over the Group's assets and undertakings. The Facilities agreements contain undertakings and negative obligations which restrict the Group from certain activities including, among other things, incurring debt, creating security interests over assets, and selling or acquiring assets, in each case except as permitted under the Facilities. The Facilities are subject to specific cash flow covenants as detailed in note 18 under Capital Management Risk. The Group has complied with these covenants at all stages during the year.
Other	The Group's overdraft facilities have a limit of $1M. As at 31 May 2017 the Group's effective interest rate, including line fees, was 4.56% (2016: 5.06%). During the prior financial year, the Group's Radiology subsidiary, Ascot Radiology Limited (Ascot), held funds in trust for its joint venture company (Ascot at Mauranui Limited). As at 31 May 2017, funds held in trust were nil (2016: $0.2M with a payable for the same amount reflected in Ascot's Balance Sheet).

NOTES TO THE FINANCIAL STATEMENTS

15. DEFERRED ACQUISITION CONSIDERATION

	NOTE	2017 $000	2016 $000
Current deferred acquisition consideration			
Acquisition earn-out liabilities		1,105	247
Acquisition retention liabilities		1,571	1,200
		2,676	**1,447**
Non-current deferred acquisition consideration			
Acquisition earn-out liabilities		4,529	4,033
Acquisition retention liabilities		2,657	2,860
		7,186	**6,893**
Term schedule			
Later than one year, less than two		2,299	2,367
Later than two years, less the five		4,502	3,764
Over five years		385	762
		7,186	**6,893**
Reconciliation - deferred consideration			
Opening balance at start of year		8,340	10,018
Deferred consideration paid during year		(1,356)	(3,802)
Deferred consideration on new acquisitions	9	2,560	2,670
Fair value amortisation on deferred acquisitions		307	249
Foreign exchange movement		(61)	33
Provisional deferred consideration revalued against goodwill		456	(516)
Prior deferred consideration revalued (recognised in Income Statement)		(384)	(312)
Closing balance at end of year		**9,862**	**8,340**

Policies

Total acquisition prices paid for dental practices are negotiated market prices. The majority of the acquisition price is paid at the acquisition date with the remainder being recognised as acquisition retention amounts and earn-out liabilities. These liabilities represent the portion of the purchase price withheld from the vendor as security for the performance of the business for a certain period after acquisition. This is not remuneration for services as dentists are paid separately for their services in the business. The funds are paid to the vendor at the expiry of this term, only if the practice performed to forecast during this time. The payments are not automatically forfeited in the event that a vendor dentist leaves a practice prior to the end of the retention or earn out period. No interest is payable on these amounts.

Following the adoption of IFRS 3 (revised) any revaluations of earn-out liabilities or retention liabilities related to acquisitions post 1 June 2010 are charged to the Income Statement.

Fair value judgements

Refer note 18, fair value adjustments, for the methodology applied to fair value the deferred acquisition consideration. Reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would not have a material effect on the fair value of the deferred acquisition consideration.

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCE LEASES

		2017 $000	2016 $000
FINANCE LEASES			
Non-cancellable finance lease obligations			
Not later than one year		1,272	1,272
Later than one year, not later than five		512	1,783
Total gross lease commitments		**1,784**	**3,055**
Future finance charges on finance leases		(99)	(261)
Present value of finance lease liabilities		**1,685**	**2,794**
Present value of finance lease liabilities is as follows:			
Not later than one year	25	1,194	1,110
Later than one year, not later than five	25	491	1,684
		1,685	**2,794**

Policies

Leases in which a significant portion of the risks and rewards of ownership are 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.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 $000		2016 $000	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps - cash flow hedges	-	4,028	-	3,498
	-	**4,028**	**-**	**3,498**
Current portion	-	213	-	306
Non-current portion	-	3,815	-	3,192
	-	**4,028**	**-**	**3,498**

Policies

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks. The Group designates certain derivatives as a hedge of a highly probable forecast transaction (cash flow hedge). 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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Hedging relationships are documented at inception, along with the assessment of whether the relationship is highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement within finance expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Policies (Continued)

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.

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Interest rate swaps

The notional principal amounts of outstanding interest rate swap contracts for the Group at 31 May 2017 were $163.4M (2016: $97.1M), refer note 18(b).

At 31 May 2017 the fixed rates vary from 2.55% to 4.92% payable (2016: 2.7% to 4.9%) and the floating rates receivable are BKBM in NZD and BBSY in AUD.

18. FINANCIAL RISK MANAGEMENT

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

The Group's treasury policy, as approved by the Board, is to identify, define, measure and record interest rate and foreign exchange risks by the various categories and to manage each risk within the defined risk control parameters. Its objective is to minimise the impact of adverse market movements across the whole business, as part of the overall business strategy to de risk the business.

The Group uses derivative financial instruments to hedge certain risk exposures and seeks to apply hedge accounting to manage volatility in profit or loss in accordance with the Group's treasury policy.

The major areas of financial risks faced by the Group and the information on the management of the related exposures are detailed below:

MARKET RISK

(a) Foreign Exchange Risk

Policies

Foreign exchange risk is the risk that adverse movements in foreign exchange rates will negatively impact on the Group's profitability, Balance Sheet and cash flows.

The Group has minimal exposure to foreign exchange transaction risk as the majority of receipts and payments for each company within the Group are made in the currency of the country that the companies operate in. However, when considered appropriate the Group may enter into approved foreign exchange instruments to hedge foreign exchange transaction risk arising from specific transactions.

The Group is exposed to foreign exchange translation risk on the Income Statement and Balance Sheet of companies that are resident and operate in countries other than New Zealand. Where possible the Group takes advantage of the natural offset in these foreign exchange exposures and borrows in the same currencies in which the cash flows from operations are generated. The Group does not hedge its net exposure to translation gains or losses in respect of these non New Zealand dollar functional currency assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Interest Rate Risk

Policies

Interest rate risk is the risk that the Group's funding costs will materially exceed annual budget and interest cost projections due to an adverse movement in interest rates or due to an unforeseen increase in borrowings.

The Group's appetite for exposure to interest rate risk is low so its desire is to manage and minimise the risk by actively managing its exposure to movements in interest rates. The Group also seeks to minimise the net funding costs within acceptable risk parameters.

The Group's policy to manage and minimise interest rate risk is to enter into floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group's policy on interest rate risk management is to hedge using approved interest rate instruments within the following maturity bands:

Period	Minimum Cover	Maximum Cover
0 to 3 years	20%	80%
3 to 5 years	20%	80%
5 to 10 years	0%	50%

Contractual pricing

All of the Group's cash and bank borrowings are subject to cash flow interest rate risk as floating interest rates are reset as market rates change. The net exposure to interest rate variability and the contractual repricing dates for those interest rate changes are shown on the following table:

	NOTE	REPRICING LESS THAN 1 YEAR $000	REPRICING 1-5 YEARS $000	REPRICING OVER 5 YEARS $000	TOTAL $000
As at 31 May 2017					
Floating rate instruments					
Cash		7,055	-	-	7,055
Total bank borrowings		(110,652)	-	-	(110,652)
Total variable rate instruments		(103,597)	-	-	(103,597)
Effect of interest rate swaps					
Notional value of interest rate swaps used in cash flow hedges	17	9,456	23,253	15,506	48,215
Notional exposure to variable interest rates as at 31 May 2017					**(55,382)**
Notional value of forward start interest rate swaps used in cash flow hedges	17	-	28,367	86,772	115,139
As at 31 May 2016					
Floating rate instruments					
Cash		4,250	-	-	4,250
Total bank borrowings		(117,805)	-	-	(117,805)
Total variable rate instruments		(113,555)	-	-	(113,555)
Effect of interest rate swaps					
Notional value of interest rate swaps used in cash flow hedges	17	15,049	33,049	-	48,098
Notional exposure to variable interest rates as at 31 May 2016					**(65,457)**
Notional value of forward start interest rate swaps used in cash flow hedges	17	-	12,899	36,124	49,023

Sensitivity

The tables below demonstrate the Group's sensitivity on its net unhedged exposure to interest rates from a 1% change in floating interest rates at balance date, with all other variables held constant, of the Group's profit before tax.

	2017 INTEREST RATE RISK				2016 INTEREST RATE RISK			
	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY
Net unhedged cash exposure	554	554	(554)	(554)	655	655	(655)	(655)

Interest rate swaps

At 31 May 2017 the fixed rate swaps vary from 2.55% to 4.92% payable (2016: 2.7% to 4.9%) and the floating rates receivable are BKBM in NZD and BBSY in AUD.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Policies

Liquidity risk is the risk that the short term and/or long term cash requirements of the Group are unable to be met. Short term liquidity management requires that adequate funds are available to meet day-to-day cash requirements of the Group.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Contractual maturities

The following table details the remaining contractual maturities at balance date of the Group's financial liabilities and derivative financial instruments. These are calculated using contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	CARRYING VALUE $000	LESS THAN 1 YEAR $000	BETWEEN 1 & 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000
As at 31 May 2017					
Financial Liabilities					
Borrowings	110,651	4,261	119,703	-	123,964
Trade and other payables	17,379	16,966	512	-	17,478
Interest rate swap derivatives	4,028	1,042	4,209	3,526	8,777
Deferred acquisition consideration	9,862	2,712	7,422	451	10,585
Total	**141,920**	**24,981**	**131,846**	**3,977**	**160,804**
As at 31 May 2016					
Financial Liabilities					
Borrowings	117,784	4,805	127,513	-	132,318
Trade and other payables	17,996	16,474	1,783	-	18,257
Interest rate swap derivatives	3,498	1,055	2,417	530	4,002
Deferred acquisition consideration	8,340	1,477	6,716	920	9,113
Total	**147,618**	**23,811**	**138,429**	**1,450**	**163,690**

CREDIT RISK

Policies

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contracted obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk is managed on a sector by sector basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposures to trade, government and public customers, including outstanding trade receivables and committed transactions. Only registered banks are accepted for bank deposits or derivative financial instruments.

Concentration

The concentration of credit risk in respect of trade receivables is limited due to the Group's large number of individual customers who are dispersed over a broad spectrum of society.

CAPITAL MANAGEMENT RISK

Policies

The primary objective of the Group's capital management is to ensure the Group operates as a going concern, that it maintains a strong credit rating with its banks and appropriate capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Ratios and covenants

The Group monitors capital using two gearing ratios, the first being net bank debt divided by total equity plus net bank debt and the second includes net bank debt plus deferred acquisition consideration. The Group includes within net bank debt, gross bank borrowings less cash and cash equivalents. The Group gearing ratios as at 31 May 2017 were 46.6% (2016: 49.7%) and 48.9% (2016: 51.4%) respectively.

There has been no change in Group policies or objectives in relation to capital risk management since the prior year.

The Group is subject to two financial banking covenants from its bankers being a debt coverage ratio and a cash coverage calculation. These are calculated and reported to the bank on a quarterly basis. There have been no breaches of these covenants or events of review for the current or prior period. The consequences of any breach would depend on the nature of the breach, and could range from an instigation of an event of review, to a demand for repayment.

In both covenants, the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), a non-GAAP financial measure, used is annualised underlying EBITDA including all acquisitions as if they had been owned for the relevant full 12 month period and excludes certain one off costs and IFRS adjustments or expenses including acquisition costs.

EBITDA is Net Profit After Tax excluding GAAP compliant net finance expenses, gains/losses arising on sale of businesses, equity accounted investments (the Bay International joint venture), non-controlling interests, tax, depreciation and amortisation costs. Underlying EBITDA is EBITDA excluding transaction costs arising on the acquisition or divestment of businesses, IFRS adjustments and impairments, including their tax effect.

FINANCIAL INSTRUMENTS BY CATEGORY

Policies

Financial assets and financial liabilities held by the Group are classified into the following categories: derivatives used for hedging, financial assets at fair value through profit or loss, or loans and receivables. Classification depends on the purpose for which they were entered into.

Classification

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

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.

	DERIVATIVES USED FOR HEDGING $000	LOANS AND RECEIVABLES $000	TOTAL $000
Assets per Balance Sheet			
As at 31 May 2017			
Cash and cash equivalents	-	7,055	7,055
Trade and other receivables excluding prepayments	-	9,180	9,180
	-	**16,235**	**16,235**
As at 31 May 2016			
Cash and cash equivalents	-	4,250	4,250
Trade and other receivables excluding prepayments	-	38,798	38,798
	-	**43,048**	**43,048**

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

	DERIVATIVES USED FOR HEDGING $000	LOANS AND RECEIVABLES $000	TOTAL $000
Liabilities per Balance Sheet			
As at 31 May 2017			
Borrowings	-	110,651	110,651
Finance leases	-	1,685	1,685
Trade and other payables	-	15,694	15,694
Deferred acquisition consideration	-	9,862	9,862
Derivative financial instruments	4,028	-	4,028
	4,028	**137,892**	**141,920**
As at 31 May 2016			
Borrowings	-	117,784	117,784
Finance leases	-	2,794	2,794
Trade and other payables	-	15,202	15,202
Deferred acquisition consideration	-	8,340	8,340
Derivative financial instruments	3,498	-	3,498
	3,498	**144,120**	**147,618**

FAIR VALUE ADJUSTMENTS

Policies

The following table sets out an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair value and are grouped into levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assumptions and judgements

Interest rate swaps are valued by applying discounted cash flow methodology that uses BBSY or BKBM spot rates from forward interest rate curves for the duration of each swap.

Deferred acquisition consideration is valued by applying discounted cash flow methodology that considers the present value of expected payment discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast EBITDA or NPAT, the amount to be paid under each scenario and the probability of each scenario.

The significant unobservable inputs for 2017 are standard same store growth rates for majority of the practices of 2.5% to 5.0% (2016: 1.2% to 3.0%). For a small number of practices same store growth rates are in the range of 7.0% to 40.0%, reflecting expected growth from expansion of these practices. Discount rates of 2.8% to 3.0% (2016: 3.2% to 3.4%) have been applied. The estimated fair value would increase if the same store revenue growth was higher and the discount rate was lower. Generally a change in the same store annual growth rate is accompanied by a directionally similar change in EBITDA.

Sensitivities to reasonably possible changes in non-market observable valuation inputs would not have a material impact on the Group's financial results.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
As at 31 May 2017				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	4,028	-	4,028
Measured at amortised cost				
Deferred acquisition consideration	-	-	9,862	9,862
As at 31 May 2016				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	3,498	-	3,498
Measured at amortised cost				
Deferred acquisition consideration	-	-	8,340	8,340

There were no transfers between any levels and no change in valuation techniques during the years ended 31 May 2017 and 2016.

TAXATION

19. INCOME TAX EXPENSE

	NOTE	2017 $000	2016 $000
Current tax expense			
Current year		4,896	3,578
(Over)/under provision for prior years		(306)	(401)
		4,590	**3,177**
Deferred tax expense			
Movement in temporary differences		(57)	(234)
Under provision for prior years		421	403
	20	**364**	**169**
Total income tax expense in Income Statement		**4,954**	**3,346**

	2017 $000	2016 $000
"Reconciliation of accounting profit and taxable income"		
Profit before tax	16,084	31,821
Taxation at 28%	4,503	8,910
Impact of difference in Australian tax rate	156	146
Share of profit of jointly controlled entity	-	(203)
Non-deductible costs/losses	391	473
Non-assessable items	(211)	(5,982)
Prior period adjustment	115	2
Total income tax expense in Income Statement	**4,954**	**3,346**

	2017 $000	2016 $000
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	1,265	704

NOTES TO THE FINANCIAL STATEMENTS

19. INCOME TAX EXPENSE (CONTINUED)

Policies	The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
Consolidated tax group	From 1 June 2015 Abano formed a New Zealand tax consolidated group comprising of Abano Healthcare Group Limited, Abano Dental Limited and Lumino Dental Limited.
Imputation credits	Imputation credits available for subsequent reporting periods are shown in the table above. The amounts shown represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax.

20. DEFERRED INCOME TAX

The net movement in deferred tax assets and liabilities during the year is as follows:

	NOTE	2017 $000	2016 $000
Balance at start of year		2,896	2,708
Acquisition of businesses		136	82
Charge to equity (cashflow hedges)		157	231
Foreign exchange movement		1	1
Recognition/(utilisation) of tax losses		-	43
Deferred tax expense	19	(364)	(169)
Balance at end of year		**2,826**	**2,896**

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

	2017 $000	2016 $000
Property, plant and equipment	(1,220)	(1,118)
Employee benefits	2,221	1,929
Trade and other receivables	173	204
Trade and other payables	481	773
Benefit of tax loss recognised	-	92
Derivative financial instruments	1,171	1,016
	2,826	**2,896**

Included in the Balance Sheet as:

	2017 $000	2016 $000
Deferred tax assets non-current	3,036	3,049
Deferred tax liabilities non-current	(210)	(153)
	2,826	**2,896**

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED INCOME TAX (CONTINUED)

Charges to the Income Statement are attributable to the following:

	2017 $000	2016 $000
Movement in:		
Property, plant and equipment	(183)	111
Employee benefits	657	473
Trade and other receivables	(30)	14
Trade and other payables	(246)	(282)
Other items		
Acquired balances	(136)	(82)
Prior year under provision	(426)	(403)
	(364)	**(169)**

Policies	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.

NOTES TO THE FINANCIAL STATEMENTS

OTHER

21. PROPERTY, PLANT AND EQUIPMENT

	NOTE	LEASEHOLD IMPROVEMENTS $000	PLANT & EQUIPMENT $000	MOTOR VEHICLES $000	WORK IN PROGRESS $000	TOTAL $000
As at 1 June 2015						
Cost		19,545	64,956	697	1,076	86,274
Accumulated depreciation		(7,666)	(37,678)	(371)	-	(45,715)
Net book value		**11,879**	**27,278**	**326**	**1,076**	**40,559**
Year ended 31 May 2016						
Opening net book value		11,879	27,278	326	1,076	40,559
Acquired through acquisition of businesses	9	695	2,403	-	-	3,098
Additions		1,273	3,030	37	7,780	12,120
Transfers		3,288	4,063	-	(7,351)	-
Disposals		(313)	(105)	-	-	(418)
Foreign exchange movement		(16)	(1)	-	(13)	(30)
Depreciation		(1,557)	(7,315)	(60)	-	(8,932)
Closing net book value		**15,249**	**29,353**	**303**	**1,492**	**46,397**
As at 1 June 2016						
Cost		24,206	73,528	733	1,492	99,959
Accumulated depreciation		(8,957)	(44,175)	(430)	-	(53,562)
Net book value		**15,249**	**29,353**	**303**	**1,492**	**46,397**
Year ended 31 May 2017						
Opening net book value		15,249	29,353	303	1,492	46,397
Acquired through acquisition of businesses	9	534	3,071	8	-	3,613
Additions		146	2,427	-	6,267	8,840
Transfers		2,559	3,862	-	(6,540)	(119)
Disposals		(81)	(140)	-	-	(221)
Foreign exchange movement		(101)	(257)	(2)	(9)	(369)
Depreciation		(1,884)	(7,600)	(44)	-	(9,528)
Closing net book value		**16,422**	**30,716**	**265**	**1,210**	**48,613**
As at 31 May 2017						
Cost		26,945	80,697	726	1,210	109,578
Accumulated depreciation		(10,523)	(49,981)	(461)	-	(60,965)
Net book value		**16,422**	**30,716**	**265**	**1,210**	**48,613**

Plant and equipment includes the following amounts where the Group is a leasee under a finance lease. Remaining lease terms are between one and three years.

	PLANT & EQUIPMENT 2017 $000	2016 $000
Cost - capitalised finance leases	5,580	5,580
Accumulated depreciation	(4,166)	(3,481)
Net book value	**1,414**	**2,099**

NOTES TO THE FINANCIAL STATEMENTS

21. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Policies

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.

Property, plant and equipment and other intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Previously recognised impairment losses on property, plant and equipment and other intangible assets 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.

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

Depreciation

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:

Leasehold improvements	5 - 20 years
Computer and office equipment	3 - 5 years
Motor vehicles	3 - 7 years
Plant and equipment	5 - 20 years

Judgements

Management must apply judgement when evaluating:

- the expected useful lives of property, plant and equipment;
- whether subsequent expenditure on the asset increases the future economic benefits to be obtained from that asset; and

whether any indicators of impairment have occurred which might require impairment testing of the current carrying values.

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER INTANGIBLE ASSETS

	NOTE	INTANGIBLES $000	WORK IN PROGRESS $000	TOTAL $000
As at 1 June 2015				
Cost		5,629	683	6,312
Accumulated amortisation		(3,814)	-	(3,814)
Net book value		**1,815**	**683**	**2,498**
Year ended 31 May 2016				
Opening net book value		1,815	683	2,498
Acquired through acquisition of businesses	9	31	-	31
Additions		224	1,493	1,717
Transfers		1,404	(1,404)	-
Impairment		(79)	-	(79)
Foreign exchange movement		-	(13)	(13)
Amortisation charge		(803)	-	(803)
Closing net book value		**2,592**	**759**	**3,351**
As at 1 June 2016				
Cost		7,194	759	7,953
Accumulated amortisation		(4,602)	-	(4,602)
Net book value		**2,592**	**759**	**3,351**
Year ended 31 May 2017				
Opening net book value		2,592	759	3,351
Acquired through acquisition of businesses	9	28	-	28
Additions		158	2,398	2,556
Transfers		2,294	(2,175)	119
Disposals		(3)	-	(3)
Foreign exchange movement		(50)	8	(42)
Amortisation charge		(698)	-	(698)
Closing net book value		**4,321**	**990**	**5,311**
As at 31 May 2017				
Cost		9,507	990	10,497
Accumulated amortisation		(5,186)	-	(5,186)
Net book value		**4,321**	**990**	**5,311**

Policies

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. 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.

Other intangible assets include copyright and licence agreements which are amortised over their estimated useful lives.

Amortisation

Amortisation of other intangible assets, is calculated on a straight line basis to allocate the cost of the assets over their expected useful lives. For major classes of intangible assets, the expected useful lives are:

Computer software	3 - 10 years
Copyright and licence agreements	5 years

Change in estimated useful lives

During the year ended 31 May 2017 the Group reviewed and changed its estimates for the expected useful lives of computer software. The change in the estimate of expected useful lives has had the effect of decreasing amortisation expense by $0.1M in the year ended 31 May 2017.

NOTES TO THE FINANCIAL STATEMENTS

23. TRADE AND OTHER RECEIVABLES

	2017 $000	2016 $000
Current		
Trade receivables	5,619	4,102
Prepayments	974	1,130
Other receivables[1]	1,095	32,202
	7,688	**37,434**
Non-current		
Owing from related parties	2,466	2,494
	2,466	**2,494**
Impairment of trade receivables		
Neither past due or impaired	5,393	4,001
Past due but not impaired	226	101
Impaired	650	715
Gross trade receivables	6,269	4,817
Provision for impairment	(650)	(715)
	5,619	**4,102**

[1] Prior year comparative includes $32M receivable for sale of shares in Bay International Limited (refer note 11).

Movement on the provision for impairment of trade receivables are as follows:

	2017 $000	2016 $000
Opening balance	715	663
Provision of doubtful debts	(35)	96
Release of over accrued doubtful debt in prior year	-	(32)
Foreign exchange movement	(7)	1
Receivables written off during the year as uncollectable	(23)	(13)
Closing balance	**650**	**715**

Policies

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.

Concentration

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

24. INVENTORIES

	2017 $000	2016 $000
Raw materials and consumables	6,769	6,136
	6,769	**6,136**

Policies

Inventories are stated at the lower of cost and net realisable value.

- Cost is determined using the first-in, first-out (FIFO) method.
- Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

NOTES TO THE FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES

	NOTE	2017 $000	2016 $000
Current			
Accounts payable		8,988	8,407
Sundry creditors and accurals		8,065	7,797
Employee benefits		9,176	7,790
Finance leases	16	1,194	1,110
		27,423	**25,104**
Non-current			
Finance leases	16	491	1,684
Employee benefits		937	990
		1,428	**2,674**

Policies

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 90 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate.

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 employees' 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 include 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 in the Income Statement.

Finance leases

Refer note 16 for finance lease accounting policies and finance lease commitments.

26. OPERATING LEASES

	2017 $000	2016 $000
OPERATING LEASES		
Non-cancellable operating lease obligations		
Not later than one year	12,682	10,634
Later than one year, not later than five	26,380	21,994
Later than five years	2,597	1,528
Total lease commitments	**41,659**	**34,156**

Policies

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.

Lease of premises, motor vehicles and plant and equipment

The Group leases premises, motor vehicles and plant and equipment. Operating leases held over some of the 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 operating leases.

NOTES TO THE FINANCIAL STATEMENTS

27. PROVISIONS

	2017 $000	2016 $000
Opening balance at start of year	633	654
Foreign exchange movement	(8)	2
Provisions made during the year	119	46
Fair value movement	26	23
Provisions used during the year	-	(92)
Closing balance at end of year	**770**	**633**
Current	123	45
Non-current	647	588
	770	**633**

Policies

Provisions 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.

Provisions are not recognised for future operating losses.

Make good

All current and prior year provisions are for make good. These reflect the contractual obligation included in some operating leases to reinstate rental premises to their original condition at the end of the lease term.

28. RELATED PARTY INFORMATION

During the year, the Group had related party transactions with its subsidiaries (see note 10) and with its directors and executive officers.

The Group utilises the services of CME Radiology Services Limited for the provision of radiology services and management services. Dr D Rogers and Dr D Milne (minority shareholders in Ascot Radiology Limited) hold interests in CME Radiology Services Limited and are associated persons. During the year services to the value of $0.5M (2016: $0.5M) were provided by CME Radiology Services Limited. There was no balance owed by the Group at 31 May 2017 (2016: nil).

Prior Year

Prior to the Company's sale of its 50% interest in Bay International Limited (refer note 11), Mr P Hutson and Mrs A Hutson (the Hutson interests) were parties related to Abano by way of their 50% interest in the joint venture operations of Bay International Limited and shares held in the Company indirectly in their capacity as trustee of various trusts and through Healthcare Industry Limited (HIL). The sale of the Company's 50% shareholding in Bay International Limited was settled on 17 June 2016 and the Hutson interests are no longer a related party.

Key Management Compensation

Key management compensation for the years ended 31 May 2016 and 2017 is set out below. Key management consists of the executive team of the Company and its subsidiaries.

	2017 $000	2016 $000
Short term benefits	2,032	2,553
Other long term benefits	148	148
Share based payments	117	117
	2,297	**2,818**

An interest free loan is provided to employees of the Company under the Executive Share Schemes (refer note 8). The balance of the loan at 31 May 2017 was $351,750 (2016: $351,750).

NOTES TO THE FINANCIAL STATEMENTS

29. COMMITMENTS AND CONTINGENCIES

	2017 $000	2016 $000
Amount committed to capital expenditure	2,000	327

As at 31 May 2017 the Group has capital commitments in relation to the purchase of plant and equipment and software for the following subsidiaries:

	$000
Lumino Dental Limited	512
Maven Dental Group Limited	1,233
Ascot Radiology Limited	255
	2,000

CONTINGENT LIABILITIES

The Group is party to legal proceedings arising from its operations. The Group establishes provisions for claims and proceedings that constitute a present obligation when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of such obligation can be made. As of 31 May 2017 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

30. SUBSEQUENT EVENTS

BUSINESS ACQUISITIONS

The Group has acquired two dental practices since balance date:

Medford House Dental (Hamilton)	9 June 2017
Jeffcott Dental (SA)	25 July 2017

The financial impact from the acquisition of these practices is not considered material to the Group.

ABANO HEALTHCARE GROUP LIMITED

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER

As at 31 May 2017, the following directors had made general disclosures in the interests register of the company. Notices given or adjusted during the financial year ended 31 May 2017 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between the Company and its subsidiaries and the disclosed entity.

DIRECTOR	ENTITY	INTEREST
E K van Arkel	Auckland Regional Chamber of Commerce and Industry Limited	Director
	AWF Madison Group Limited	Director
	Danske Mobler Limited	Director
	Lang Properties Limited	Director/Shareholder
	Philip Yates Securities Limited and subsidiaries	Director
	Restaurant Brands New Zealand Limited and subsidiaries	Chairman
	The Warehouse Group Limited* (ceased 23 September 2016)	Chairman
	Van Arkel and Co Limited	Director/Shareholder
M R Boyte	Ariadne Capital Pty Limited	Director
	Ariadne Marinas Oceania Pty Limited	Director
	Bay International Limited and subsidiary* (ceased 17 June 2016)	Director
	Eiderdown Co. Pty Limited* (ceased 18 August 2016)	Director
	Freshxtend Technologies Corp (BC. Canada)	Director
	Lake Gold Pty Limited	Director
	S&K Car Park Management Limited (UK)* (ceased 11 January 2017)	Director
	San Remo Projects Pty Limited* (appointed 10 October 2016)	Director
	Traffic Monitoring Services Pty Limited and subsidiaries* (ceased 11 January 2017)	Director
	Unity Pacific Funds Management Limited	Director
	Unity Pacific Investment Management Limited* (ceased 10 October 2016)	Director
	Unity Pacific Limited* (ceased 10 October 2016)	Director
	Unity Pacific Property Services Pty Limited* (ceased 10 October 2016)	Director
	Waimoana Farm Limited	Director
D Chan	A1 Flower Wholesalers Limited	Director/Shareholder
	Alpha Asset Management Limited	Director/Shareholder
	ARN Investments Limited	Director/Shareholder
	Asia NZ Foundation* (appointed 1 March 2017)	Trustee
	Asia Pacific Centre for Food Integrity Limited	Director
	Auckland Tourism, Events and Economic Development Limited (ATEED)	Director
	Badminton New Zealand	Director
	B L Tech Limited	Shareholder
	Boss Systems Limited* (appointed 10 February 2005)	Director/Shareholder
	Carbonscape Limited* (appointed 2 December 2016)	Shareholder
	Cloud M Limited	Shareholder
	Club Q Condominiums Limited	Director
	Confucius Institute Advisory Board	Member
	Cottage Design Limited	Director
	Danting Investments Limited	Director/Shareholder
	Department of Prime Minister and Cabinet – China Project	Member
	Diabetic Food Limited	Director/Shareholder
	Education Investment Limited	Director/Shareholder
	Enrolmy Limited* (appointed 21 September 2016)	Shareholder
	Evergrow Properties Limited	Director

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER (CONTINUED)

DIRECTOR	ENTITY	INTEREST
D Chan (Continued)	Farmers Mutual Group (FMG) and subsidiary	Director
	Flowerzone International Limited and subsidiaries	Director/Shareholder
	Global Academic Group Holdco Limited* (appointed 21 June 2016)	Director/Shareholder
	Green Cut Limited	Director/Shareholder
	Griff Trading Limited	Director/Shareholder
	iMonitor Limited* (22 June 2015)	Shareholder
	Lady White Snake Film Limited	Director/Shareholder
	Marlborough Wine Estates Group Limited* (appointed 27 June 2016)	Director
	Microgem International Plc	Shareholder
	New Education Investment Limited and subsidiaries	Director/Shareholder
	NZ China Executive Council	Member
	NZ Markets Disciplinary Tribunal	Member
	NZ Yacon Limited	Director/Shareholder
	Organic Initiative Limited	Shareholder
	Orient Pacific Corporation Limited	Director/Shareholder
	Orient Pacific Investments Limited	Director/Shareholder
	Orient Pacific Management Limited	Director/Shareholder
	Orpac International Limited	Director/Shareholder
	Pisces Trustees Company	Trustee
	Planit Products NZ Limited	Director/Shareholder
	Rhino Security Limited	Director/Shareholder
	Sharp Multi-Media Limited	Director/Shareholder
	Sharp Multi-Media Production Limited	Director/Shareholder
	SIMTICS Limited	Director/Shareholder
	SimTutor Limited	Director/Shareholder
	Superthriller Jet Sprint Limited	Shareholder
	Tahere Group Limited and subsidiary	Director/Shareholder
	Talaford Investments Limited and subsidiary	Director/Shareholder
	The Academic Coaching School Limited	Director/Shareholder
	Turners Flower Exports N.Z. Limited	Director/Shareholder
P J Dunphy	Chubb Insurance New Zealand Limited* (previously known as Ace Insurance Limited)	Director
	First Gas TopCo Limited and subsidiaries	Chairman
	FSF Management Company Limited	Director
	Gas Services NZ Limited	Chairman
	Next Foundation	Advisor
	NZ Super Fund	Director
	Penny - Advisory Board* (ceased October 2016)	Chair
	Tamaki Research Limited	Director
	Transpower New Zealand Limited	Director

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER (CONTINUED)

DIRECTOR	ENTITY	INTEREST
T D Janes	Accident Compensation Corporation (ACC)	Deputy Chair & Investment Committee Chair
	Certus Solutions Limited	Chairman
	International Development Commercial Advisory Panel of MFAT	Chair
	KiwiRail Holdings Limited* (appointed 30 September 2016)	Chairman
	NZ Markets Disciplinary Tribunal	Member
	NZ Post Network Access Committee	Member
	NZ Railways Corporation* (appointed 30 September 2016)	Chair
	ProCare Charitable Foundation* (ceased 25 October 2016)	Director
	ProCare Health Limited* (ceased 31 August 2016)	Director
	Rovert Investments Limited	Director/Shareholder
	Selenium Corporation Limited	Director/Shareholder
	Tokelau International Trust Fund* (appointed 30 June 2016)	Chair
Dr G Mansberg	AbbVie Limited* (ceased 2016)	Shareholder
	Bayer Australia Limited	Advisory Board & Consulting
	Biomarin Pharmaceutical Inc.	Shareholder
	CSL Limited	Shareholder
	Gilead Sciences Inc.* (ceased 2016)	Shareholder
	Grunbiotics Pty Limited	Consulting
	Immunization Coalition	Board Member & Public Affairs Commissioner
	Mayne Pharma* (ceased 2016)	Shareholder
	Medibank Limited	Shareholder
	MSD New Zealand	Advisory Board
	NIB Health Funds Limited	Consulting
	Novavax* (ceased 2016)	Shareholder
	Pfizer New Zealand Limited	Shareholder
	Procter & Gamble Australia Pty Limited	Shareholder
	Ramsay Health Care	Shareholder

ADDITIONAL STATUTORY INFORMATION

DIRECTORS' SHARE DEALINGS

During the year the directors named below disclosed the following acquisition of relevant interests in ordinary shares of the Company.

DIRECTOR	DATE OF TRANSACTION	CONSIDERATION PER SECURITY	NUMBER OF SECURITIES ACQUIRED	NATURE OF RELEVANT INTEREST
E K van Arkel	22 Aug 16	$8.09	237	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2016 final dividend.
	23 Aug 16	$8.25	1,452	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
	8 Feb 17	$8.74	1,722	Purchase of ordinary shares through the market pursuant to the Directors Share Plan, together with reinvestment of cash proceeds from 2017 interim dividend.
M R Boyte	22 Aug 16	$8.09	63	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2016 final dividend.
	23 Aug 16	$8.25	1,210	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
	8 Feb 17	$8.74	1,337	Purchase of ordinary shares through the market pursuant to the Directors Share Plan, together with reinvestment of cash proceeds from 2017 interim dividend.
D Chan	22 Aug 16	$8.09	247	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2016 final dividend.
	26 Oct 16	$8.10	1,232	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
	8 Feb 17	$8.74	203	Purchase of ordinary shares through the market for reinvestment of cash proceeds from 2017 interim dividend.
	3 May 17	$8.63	1,251	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
P J Dunphy	22 Aug 16	$8.09	275	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2016 final dividend.
	26 Oct 16	$8.10	2,095	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
	8 Feb 17	$8.74	236	Purchase of ordinary shares through the market for reinvestment of cash proceeds from 2017 interim dividend.
	3 May 17	$8.63	2,118	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
T D Janes	22 Aug 16	$8.09	538	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2016 final dividend.
	23 Aug 16	$8.25	2,421	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
	8 Feb 17	$8.74	2,978	Purchase of ordinary shares through the market pursuant to the Directors Share Plan, together with reinvestment of cash proceeds from 2017 interim dividend.
Dr G Mansberg[1]	26 Oct 16	$8.10	1,227	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
	8 Feb 17	$8.74	20	Purchase of ordinary shares through the market for reinvestment of cash proceeds from 2017 interim dividend.

1 Appointed on 24 August 2016.

ADDITIONAL STATUTORY INFORMATION

DIRECTORS' SHAREHOLDINGS

As at 31 May 2017

	BENEFICIAL INTEREST 2017	2016
E K van Arkel	15,398	11,987
M R Boyte	5,347	2,737
D Chan	15,409	12,476
P J Dunphy	18,599	13,875
T D Janes	33,121	27,184
Dr G Mansberg[1]	1,247	-

1 Appointed on 24 August 2016.

REMUNERATION OF DIRECTORS

Remuneration and other benefits.	Director Fee	Committee Chair	Other[1]	2017 $	2016 $
E K van Arkel	62,917	12,583	3,467	78,967	66,000
M R Boyte	62,917	-	3,467	66,384	60,000
D Chan	62,917	-	6,933	69,850	60,000
P J Dunphy	94,083	12,583	25,866	132,532	87,000
T D Janes	125,833	-	31,200	157,033	120,000
Dr G Mansberg[2]	49,067	-	3,467	52,534	-

1 Other fees relate to additional fees of $74,400 paid to Directors for additional workload due to takeover activity. These fees were paid from special annual pool of $150,000, as approved by shareholders at annual meeting held in October 2016, and are recoverable from Healthcare Partners Holdings Limited under the Takeovers Code.

2 Appointed on 24 August 2016.

SUBSIDIARY COMPANY DIRECTORS

The following persons held the office of director in subsidiary companies during the year. Employee directors of subsidiary companies appointed by the Group do not receive directors' fees or other benefits in their capacity as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bands for remuneration disclosed under Remuneration of Employees.

COMPANY	DIRECTORS					
Abano Dental Limited	R G Keys	A R Tapper	R J Walsh			
Abano Radiology Limited	R G Keys	A R Tapper	R J Walsh			
Ascot Radiology Limited	R G Keys	R N Davis	D G Milne	D R Rogers	R J Walsh	P A Weeks
Lumino Dental Limited	R G Keys	V L Andrews	A Shepperson	A R Tapper	R J Walsh	
Maven Dental Group Pty Limited	R G Keys	S E R Harmsworth	M D Lean[1]	A R Tapper	R J Walsh	
Theo Baisi Pty Limited	R G Keys[2]	S E R Harmsworth[2]	A R Tapper[2]	R J Walsh[2]	C M Williams	

1 Resigned on 3 June 2016.

2 Appointed on 13 October 2016.

ADDITIONAL STATUTORY INFORMATION

REMUNERATION OF EMPLOYEES

The number of employees (excluding directors) within the Group who received remuneration and benefits above $100,000 are indicated in the following table:

	GROUP	
	2017	2016
$100,001 - $110,000	25	19
$110,001 - $120,000	10	11
$120,001 - $130,000	14	11
$130,001 - $140,000	8	8
$140,001 - $150,000	3	7
$150,001 - $160,000	7	3
$160,001 - $170,000	2	4
$170,001 - $180,000	2	2
$180,001 - $190,000	1	1
$190,001 - $200,000	2	1
$200,001 - $210,000	1	1
$210,001 - $220,000	1	2
$220,001 - $230,000	-	1
$230,001 - $240,000	1	2
$250,001 - $260,000	1	1
$270,001 - $280,000	1	-
$300,001 - $310,000	-	1
$310,001 - $320,000	-	2
$320,001 - $330,000	1	1
$340,001 - $350,000	-	1
$610,001 - $620,000	-	1
$660,001 - $670,000	1	1
$830,001 - $840,000	1	-

SPREAD OF SECURITY HOLDERS

As at 13 July 2017

SIZE OF SHAREHOLDING	NUMBER OF HOLDERS	TOTAL SHARES HELD	% OF SHARES
1 - 4,999	1,788	2,460,728	11.47%
5,000 - 9,999	208	1,426,120	6.64%
10,000 - 49,999	124	2,154,311	10.04%
50,000 - 99,999	12	847,961	3.95%
100,000 - 499,999	14	2,780,330	12.95%
500,000 - 999,999	4	2,861,460	13.33%
1,000,000 or more	3	8,934,356	41.62%
	2,153	**21,465,266**	**100%**

ADDITIONAL STATUTORY INFORMATION

SHAREHOLDER INFORMATION

Twenty largest security holders as at 13 July 2017

	ORDINARY SHARES	% HOLDING
Healthcare Partners Holdings Limited	4,083,688	19.02%
TEA Custodians Limited Client Property Trust Account	2,633,788	12.27%
Forsyth Barr Custodians Limited	2,216,880	10.33%
BNP Paribas Nominees (NZ) Limited	911,057	4.24%
National Nominees New Zealand Limited	716,567	3.34%
Custodial Services Limited (A/c 3)	697,427	3.25%
Accident Compensation Corporation	536,409	2.50%
Sok Eng Boey, Yeow Ann Chiam, Kay Hong Chiam & Shen Mei Chiam	360,864	1.68%
Custodial Services Limited (A/c 2)	310,492	1.44%
Custodial Services Limited (A/c 4)	264,858	1.23%
Custodial Services Limited (A/c 18/)	255,830	1.19%
Grant Michael Novak, Jacqueline Francesca Vervoort & NKS Trustees Limited	241,989	1.13%
Alan William Clarke	232,413	1.08%
Lloyd James Christie	171,446	0.80%
JP Morgan Chase Bank NA NZ Branch-Segregated Clients Acct - NZCSD	168,727	0.79%
Richard Keys, Kathryn Keys & Ronald Bruell	166,908	0.78%
Jarden Custodians Limited	150,000	0.70%
Clinton Adam Teague	144,553	0.67%
HSBC Nominees (New Zealand) Limited	134,502	0.63%
Forsyth Barr Custodians Limited	126,125	0.59%
	14,524,523	67.67%

SUBSTANTIAL PRODUCT HOLDERS

The following substantial product holder information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. As at 31 May 2017, details of the Substantial Product Holders in the Company and their relevant interests in the Company's ordinary shares are shown in the table below. The total number of listed voting securities (ordinary shares) of the Company as at 31 May 2017 was 21,465,266.

	DATE OF NOTICE	NUMBER OF SHARES
Healthcare Partners Holdings Limited	6 Mar 17	4,083,688
SF No. 2 Trust SPV2 Limited	4 Nov 16	4,083,688
Peter Lionel Hutson, Lewis Thomas Grant and Anya Lee Hutson as trustees of the SF No. 2 Trust	4 Nov 16	4,083,688
Steamboat Capital SPV2 Limited	4 Nov 16	4,083,688
Steamboat Capital Limited	4 Nov 16	4,083,688
Field Nominees Limited on behalf of the Reeves Border Trust	4 Nov 16	4,083,688
James Livingstone Reeves, Nicola Jane Reeves and Gary Chapman Trustees Limited as trustees of the Ballroom Trust	4 Nov 16	4,083,688
James Livingstone Reeves	4 Nov 16	4,083,688
Fisher Funds Management Limited	24 Aug 16	2,336,032
Forsyth Barr Investment Management Limited	19 Apr 17	1,297,157

NZX WAIVER

On 26 May 2016, NZX granted Abano Healthcare Group Limited a waiver from NZX Main Board Listing Rule 9.2.1. In effect, this meant that Abano was not required to obtain shareholder approval for the sale of its 50% shareholding in Bay International Limited, and assignment of outstanding shareholder loans, to interests associated with Peter Hutson (being the trustees of the SF No. 2 Trust ("Hutson Trustees")), a related party of Abano, for a cash payment of $32 million (the "Transaction"). The waiver was granted on two conditions, being that Abano's directors certified to NZX a number of matters (including that the terms of the Transaction are in the best interests of Abano and that the Hutson Trustees had no influence over Abano's decision to give, or the terms of, the sale notice which triggered the Transaction), and that the waiver, its conditions and the implications of the waiver are disclosed in Abano's next half-year report and annual report. The full details and text of the conditions of the waiver are available to view on NZX's website, www.nzx.com, under Abano's ticker code "ABA".

CORPORATE GOVERNANCE

At Abano, we are committed to conducting business in the right way, ethically and in line with our legal and regulatory obligations, to ensure we add long term value to our staff, shareholders and other stakeholders.

Abano is working towards adoption of the NZX Corporate Governance Code 2017 (the Code), which comes into effect on 1 October 2017. The Board considers that Abano's governance practices for the year comply with the existing NZX Corporate Governance Code.

Abano's approach to corporate governance and other governance documents are available for viewing on the Abano website www.abano.co.nz/governance.

A summary of Abano's governance actions and performance against each of the Principles in the new Code in FY17 is detailed below.

PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

FY17 Key Events	Completed annual review of Share Trading Policy	Communication of Whistle Blowing Policy across the group

Abano is committed to ensuring 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.

These standards, as well as guiding principles, are set out in Abano's Ethical Conduct Policy which is available on Abano's website. Additional guidance for Directors is provided in the Board Charter.

A separate Whistle Blowing Policy provides an avenue for employees to gain director access to the CEO and/or Chairman of the Risk Assurance and Audit Committee if they believe there are issues that need to be raised.

Abano also has a Share Trading Policy to mitigate the risk of insider trading in Abano securities by employees and directors. Additional trading restrictions apply to Restricted Persons including directors and certain employees. Details of Directors' share dealings are detailed on page 47 of the Financial Statements.

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

FY17 Key Events	Completed annual review of Board Charter	Completed three-year review of Company Constitution	Independent external review of Abano Board

The Abano Board is committed to acting in the best interests of the Company and for the benefit of all shareholders.

The Board Charter sets out the structure of the Board and the procedures for the nomination, resignation and removal of Directors. The Board Policy Manual acts as a reference for Directors in regards to Board procedures, policies and matters of governance. It outlines the responsibilities and roles of the Chairman and Directors and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board. The Company has adopted a Delegated Authorities Policy which sets out all formal delegations to the management and is reviewed annually.

Director Appointment

FY17 Key Events	Appointment and election of Dr Ginni Mansberg as an Independent Director	Re-election of Trevor Janes and Danny Chan as Independent Directors at 2016 annual meeting	Re-election by the Board of Trevor Janes and Pip Dunphy as Chair and Deputy Chair respectively

The number of elected Directors and the procedure for their retirement and re-election at Annual Meetings of shareholders is set out in the Constitution of the Company.

The Board takes into consideration tenure, capability and skill sets when reviewing Board composition and new appointments. While the nomination process is the responsibility of the whole Board, the Governance and Remuneration Committee is responsible for identifying and recommending candidates, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, qualifications, judgement and the ability to work with other Directors.

The Abano Board currently consists of six Independent Directors. In order for a Director to be independent, the Board has determined that he or she must not be an executive of Abano Healthcare Group Limited and must have no disqualifying relationships. The Board follows the guidelines of the NZX Listing Rules.

Abano's Directors offer a wide range of complementary skills, experience and expertise in areas including the operation and management of large complex organisations, retail, capital markets, healthcare businesses, governance, business strategy, finance and Australian and Asian markets.

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. Together, they reflect diversity, balance, cohesion and match the demands facing the Group.

Profiles of each Director are set out on the Abano website. Director's interests are disclosed on pages 43 to 45 of the Financial Statements.

The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board's expertise, has a personality that is compatible with the other Directors and has strong market perception.

All Directors are either members of the Institute of Directors or the Australian Institute of Company Directors. Directors are committed to carrying out their roles and responsibilities in line with the Four Pillars of Best Governance Practice presented by the Institute of Directors in July 2012.

The Company encourages all Directors to undertake appropriate training and education so that they may best perform their duties. In addition, all Directors are regularly updated on relevant industry and Company issues, including briefings from key executives and ongoing presentations to the Board by all business units. External and internal training was undertaken by Directors in FY17.

All Directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at Board meetings, or other areas as they consider appropriate.

The Board Committees and Directors, subject to the approval of the Chairman, have the right to seek independent professional advice at the Company's expense, to enable them to carry out their responsibilities.

The Company has arranged a policy of Directors' and Officers' liability insurance which is underwritten by QBE Insurance (International) Limited. This ensures that any monetary loss suffered by Directors and Officers, as a result of actions undertaken by them as Directors or Officers, is capped to specified limits (subject to legal requirements or restrictions).

The Board has a policy of regular evaluation of individual and collective performance, together with a regular review of the skill sets and succession planning required to govern the business. A formal independent review is conducted every three years and was last completed in 2017.

The Board supports the separation of the roles of Chairman and CEO and the appointment of an Independent Chairman.

It is also the practice of the Company that the Chairman and Deputy Chairman retire and offer themselves for re-election (should they so desire) by the Board after each Annual Meeting. Trevor Janes was re-elected Chair and Pip Dunphy was re-elected Deputy Chair following the annual meeting held in October 2016.

Diversity

Diversity is defined as a variety of characteristics that make individuals unique. The key aspects that Abano is seeking are diversity of thinking and skills as these attributes are most likely to assist Abano in delivering better outcomes for its stakeholders. Diversity of thinking and skills can arise through a number of different characteristics including but not limited to the following; gender, ethnic background, religion, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. Different backgrounds, communication styles, lifeskills and interpersonal skills are also considered of value in building diverse teams.

Abano has adopted a Diversity policy which outlines Abano's commitment to providing an inclusive and diverse environment throughout the company. The Board believes that Company performance met the objectives of the Diversity Policy in FY17. This Policy will be reviewed in 2018 and additional objectives and measures of diversity will be considered.

As at 31 May 2017, females represented 30% (FY16: 22%) of Directors and Officers of the Company (an Officer is a person who is within two tiers of reporting to the Board).

Females represented 40% (FY16: 30%) of the Company's business management teams (including Officers) holding the positions of General Manager, Financial Controller and Operations Managers.

	FY17		FY16	
	Male	**Female**	**Male**	**Female**
Directors	4	2	4	1
Officers	3	1	3	1
Total	**7**	**3**	**7**	**2**

Meeting Attendance

The table below sets out Director attendance at Board and Committee meetings during FY17. There was an abnormally high number of meetings in FY17, as the Board managed the response to the hostile partial takeover offer from Healthcare Partners Holdings Limited and undertook due diligence for the capital raising announced on 26 July 2017. In total, there were 13 Board meetings, three Risk Assurance and Audit Committee (RAAC) meetings and one Governance and Remuneration Committee (GRC) meeting. An additional eight meetings were held in relation to the partial takeover offer and attended by the majority of Directors.

Board meetings are usually held monthly, with other meetings to deal with certain matters arising from time to time being held when necessary.

	Board	Risk Assurance and Audit Committee	Governance and Remuneration Committee	Takeover Committee
Total number of meetings held	**13**	**3**	**1**	**8**
Ted van Arkel	12	2	1	7
Murray Boyte	13	3	1	7
Danny Chan	13	3	1	8
Pip Dunphy	13	3	1	7
Trevor Janes	13	3	1	8
Dr Ginni Mansberg [1]	11	2	1	6

[1] Appointed on 24 August 2016

PRINCIPLE 3: BOARD COMMITTEES

FY17 Key Events	Risk Assurance and Audit Committee met three times	Governance and Remuneration Committee met once	Takeover Committee met eight times

The Board has delegated a number of its responsibilities to Committees to assist in the execution of the Board's responsibilities.

The use of Committees allows issues requiring detailed consideration to be dealt with separately by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its Committees and determines their responsibilities.

The Committees meet as required and have terms of reference, which are approved and reviewed by the Board. Committee charters are available to view on the Abano website. Minutes of each Committee meeting are forwarded to all members of the Board, who are all entitled to attend any Committee meeting. 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.

The membership and performance of each Committee is reviewed annually.

The current Committees of the Board are:

Risk Assurance and Audit Committee

Chairman: Pip Dunphy
Danny Chan
Trevor Janes
Dr Ginni Mansberg

Governance and Remuneration Committee

Chairman: Ted van Arkel
Murray Boyte
Trevor Janes

From time to time, special purpose Committees are formed to review and monitor specific projects with senior management. A Takeover Committee was formed in FY17 to oversee disclosure and the response to the Healthcare Partners Holdings Limited partial takeover offer. Members of the Takeover Committee were Trevor Janes, Pip Dunphy and Danny Chan.

PRINCIPLE 4: REPORTING AND DISCLOSURE

FY17 Key Events	Increased communication with shareholders during the failed partial takeover period	Finalist in the INFINZ Emerging Leaders Best Corporate Communicator Award	Completed bi-annual review of Market Disclosure Policy

Abano's Directors are committed to keeping investors and the market informed of all material information about the Company and its performance. In addition to all information required by law, Abano also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed.

For the financial year ended 31 May 2017, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

Abano has a Market Disclosure Policy which governs the release to the market of all material information that may affect the value of the Company.

While Abano already has policies that support environmental, social and governance concerns, a more detailed framework will be considered in FY18.

PRINCIPLE 5: REMUNERATION

FY17 Key Events	Shareholder approval of increase in directors' remuneration at 2016 annual meeting	20,862 shares acquired by Directors under the Directors' Share Plan and the reinvestment of dividend proceeds

Remuneration of Directors and senior executives is the key responsibility of the Governance and Remuneration Committee. The framework for the determination and payment of Directors' and senior executives' remuneration is set out in the Directors and Senior Executives Remuneration Policy. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market for senior management positions, Directors and Board positions.

Executive Remuneration

Executive remuneration comprises a fixed base salary, a variable short term bonus payable annually with some long term bonuses. Bonuses are paid against targets agreed with executives at the commencement of the period, and are based on profitability, growth and personal objectives.

In addition, in the 2016 financial year, a long term performance based share scheme was implemented for the CEO, on materially similar terms to the original 2008 scheme approved by shareholders and renewed in 2011. The scheme further aligns management's interests with those of shareholders, and encourages management to ensure the Company performs well, through long term growth and increasing shareholder value. The Board believes it is important to motivate and retain key executives, and provide performance incentives which allow executives to share the rewards of the success of the Company. Details are provided on page 20 of the 2017 Financial Statements.

Details of executives' remuneration and entitlements are detailed under Key Management Compensation on page 42 and Remuneration of Employees information on page 49 of the 2017 Financial Statements.

CEO Remuneration

The review and approval of the CEO's remuneration is the responsibility of the Board.

Richard Keys commenced his role as CEO of Abano in November 2015. His remuneration package comprises a fixed base salary, a variable short term performance incentive (STI) payable annually and a long term performance based share scheme. Use of external advice was sought on the CEO's remuneration package.

Short term bonuses are paid against targets agreed at the commencement of the year, and are based on achievement of strategic objectives including financial performance against budget, specific achievement of major milestones in the strategic plan and enhancing organisation culture and capability including IT, health and safety, risk, people and culture.

Vesting of shares under the three-year Long Term Performance-based Share Scheme requires satisfaction of Underlying EPS hurdles. Details are provided on page 20 of the 2017 Financial Statements.

CEO Remuneration (FY17)

	Salary[1]	Benefits[2]	Subtotal	Pay for performance STI[3]	LTI[4]	Subtotal	Total remuneration
CEO 1 - Richard Keys	544,758	-	544,758	122,106	-	122,106	666,864

CEO Remuneration (FY16)

	Salary[5]	Benefits[6]	Subtotal	Pay for performance STI[7]	LTI[8]	Subtotal	Total remuneration
CEO 1 - Richard Keys[9]	483,201	2,220	485,421	132,018	56,700	188,718	674,139
CEO 2 - Alan Clarke[10]	271,893	5,099	276,992	114,389	157,500	271,889	548,881

1 Actual salary paid includes holiday pay paid as per NZ legislation. Richard Keys' base salary was $530,400.
2 No additional benefits are payable as base salary is total remuneration which includes employer Kiwisaver contribution (if any).
3 STI payment for the period 1 June 2015 to 31 May 2016 (maximum STI payable was $143,654).
4 Refer page 20 of the 2017 Financial Statements for details of long term incentive plan. Shares will vest in FY19 if hurdles are met.
5 Actual salary paid includes holiday pay paid as per NZ legislation. Base salary for Richard Keys in CEO role was $520,000.
6 Benefits include Southern Cross health insurance and home telephone.
7 STI payment for the period 1 June 2014 to 31 May 2015 (maximum STIs payable to Richard Keys and Alan Clarke were $151,745 and $131,482 respectively).
8 LTI payment for the period 1 June 2014 to 31 May 2015 (maximum LTI paid).
9 Remuneration for Richard Keys includes payment for COO/CFO role for period 1 June 2015 to 2 November 2015 and as CEO for remainder of FY16 financial year.
10 Remuneration for Alan Clarke covers period 1 June 2015 to 2 November 2015.

Director Remuneration

An increase in the total amount of remuneration payable per annum to non-executive Directors from $564,000 to $663,000 was last approved at the 2016 Annual Meeting in October 2016.

Board role	Approved remuneration
Chairman	$130,000
Deputy Chair	$97,000
Director	$65,000
Additional fee for Committee Chairs	$13,000
Special annual pool to provide flexibility for the remuneration of non-executive directors who take on additional duties	$150,000

Details of Directors' remuneration are detailed on page 48 of the 2017 Financial Statements.

The Board has previously approved a Directors' Share Plan, whereby 50% of the annual after tax fees for non-executive Directors are paid in shares, which are acquired on the market on a quarterly basis. The framework for the Share Plan is outlined in the Directors' Share Plan and Policy. Details of shares acquired under the share plan can be found in Directors' Share Dealings on page 47 of the 2017 Financial Statements.

Any proposed increases in non-executive Director fees and remuneration are put to shareholders for approval. Independent advice is also sought by the Board and disclosed to shareholders as part of the approval process.

PRINCIPLE 6: RISK MANAGEMENT

FY17 Key Events	Completed review of Earthquake Policy	Commenced implementation of new Risk Management reporting system

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. In addition, the Risk Assurance and Audit Committee (RAAC) provides an additional and more specialised oversight of Company risks. The RAAC Charter details the specific responsibilities of the Committee in regards to Risk Assurance.

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 CEO, 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 formally reviewed by the Board quarterly. These risk profiles also identify the key risk mitigation strategies which are in place.

Crisis plans have been developed and are in place along with agreed protocols on actions to be taken and external and internal communication protocols.

Occupational Health and Safety statistics and reported data from each business are reviewed at each Board meeting. This includes serious and minor incidents along with near misses and corrective actions and internal training schemes.

The Board is responsible for monitoring corporate risk assessment processes and this is not delegated to a subcommittee.

Health and Safety

FY17 Key Events	Ongoing development and implementation of best practice sterilisation protocols	Development of best practice equipment and infection control manual

The Abano Board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for employees, contractors, customers and patients. The Health and Safety Charter defines the Board's responsibilities and actions in regards to health and safety matters.

As a healthcare company, the health and safety of our patients and customers is of particular relevance.

Appropriate resources have been allocated to ensure all safety related legislative requirements are complied with and the best available health and safety management systems are established, maintained and regularly reviewed for continuous improvement. Details of Abano's approach are outlined in the Health and Safety Policy Statement.

PRINCIPLE 7: AUDITORS

FY17 Key Events	Re-appointment of PricewaterhouseCoopers as Abano's auditor	$431,000 paid to auditors for audit and non-audit work

Abano's External Auditor Policy outlines the Company's commitment to ensuring audit independence, both in fact and appearance, so that Abano's external financial reporting is viewed as being highly objective and without bias.

The Risk Assurance and Audit Committee (RAAC) reviews the quality and cost of the audit undertaken by the Company's external auditors and provides a formal channel of communication between the Board, senior management and external auditors.

The RAAC also assesses the auditor's independence on an annual basis.

All audit work at Abano is fully separated from non-audit services, to ensure that appropriate independence is maintained.

For the financial year ended 31 May 2017, PricewaterhouseCoopers (PwC) was the external auditor for Abano Healthcare Group Limited. PwC was re-appointed under the Companies Act 1993 at the 2016 Annual Meeting. The last audit partner rotation was in FY15.

The amount of fees paid to PwC for audit and non-audit work are identified on page 19 of the 2017 Financial Statements.

Other services provided by PwC in FY17 were non-audit related and involved the provision of advice rather than recommendations. These were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work.

Abano has a number of internal controls overseen by the RAAC, including controls for computerised information system, security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud.

PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS

FY17 Key Events	Delivered on annual communications plan	38% of shareholders have elected to receive electronic communications

The Board is committed to open and regular dialogue and engagement with shareholders. Abano has a calendar of communications and events for shareholders, including but not limited to:

- Annual and Interim Reports
- Bi-annual Shareholder Newsletter
- Market announcements
- Annual Meeting
- Institutional investors and retail broker roadshows
- Other ad hoc investor presentations
- Easy access to information through the Abano website www.abano.co.nz
- Open access to management via phone calls and email.

Shareholders are actively encouraged to attend the Annual Meeting and may raise matters for discussion at this event, and vote on major decisions which affect Abano. Voting is by poll, upholding the 'one share, one vote' philosophy.

Abano also provides additional opportunities for shareholders to meet with management at various shareholder events, including investor roadshows in New Zealand and Australia and presentations at shareholder organisations.

All shareholders are given the option to elect to receive electronic communications from the company.

In addition to shareholders, Abano has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

Abano has a number of policies which uphold stakeholder interests including but not limited to the Share Trading Policy, Market Disclosure Policy and Ethical Conduct Policy.

ABANO HEALTHCARE GROUP LIMITED

DIRECTORS

Eduard (Ted) Koert van Arkel
Appointed 5 July 2011

Murray Boyte
Appointed 26 February 2015

Danny Chan
Appointed 19 December 2008

Philippa (Pip) Dunphy
Deputy Chairman
Appointed 25 September 2012

Trevor David Janes
Chairman
Appointed 23 September 2005

Dr Ginni Mansberg
Appointed 24 August 2016

RISK ASSURANCE AND AUDIT COMMITTEE

Chairman: Pip Dunphy
Danny Chan
Trevor Janes
Dr GInni Mansberg

GOVERNANCE AND REMUNERATION COMMITTEE

Chairman: Ted van Arkel
Murray Boyte
Trevor Janes

REGISTERED OFFICE AND ADDRESS FOR SERVICE

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

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street, Auckland

BANKERS

ASB Bank Limited
12 Jellicoe Street, Auckland

Commonwealth Bank of Australia
240 Queen Street
Brisbane, Australia

SOLICITORS

Harmos Horton Lusk Limited
Vero Centre
48 Shortland Street, Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland

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