Abano Healthcare Six Month Report to Shareholders 2012

For the six month period to 30 November 2011

abano healthcare group limited

DIRECTORY

DIRECTORS

Trevor David Janes
Chairman
Appointed 23 September 2005

Susan Marie Paterson
Deputy chairman
Appointed 23 September 2005

Alan William Clarke
Appointed 31 October 2001

Alison Mae Paterson
Appointed 16 October 2002

Peter Lionel Hutson
Appointed 25 November 2008

Danny Chan
Appointed 19 December 2008

AUDIT COMMITTEE

Alison Paterson (chair),
Danny Chan

REMUNERATION COMMITTEE

Susan Paterson (chair),
Alison Paterson

NOMINATION COMMITTEE

All board members

REGISTERED OFFICE AND ADDRESS FOR SERVICE

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

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay St, Auckland

BANKERS

ASB Bank Limited
135 Albert St, Auckland

Commonwealth Bank of Australia
240 Queen St
Brisbane, Australia

SOLICITORS

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay St, Auckland

Harmos Horton Lusk
Vero Centre
48 Shortland Street, Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland

Abano Healthcare Group Limited
P O Box 106 514, Auckland 1143
Telephone: + 64 9 300 1410
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SIX MONTH HIGHLIGHTS TO 30 NOVEMBER 2011

- Generated Revenues of $102.0 million, an EBITDA of $11.7 million and a NPAT of $0.6 million
- Excluding the recent changes as required under IFRS, underlying EBITDA was $12.5 million, resulting in an underlying NPAT of $1.3 million
- Revenues from the continuing operations of Abano's dental, diagnostics and rehabilitation sectors (excluding the audiology joint venture) increased by 18 percent over the same period last year
- Lumino The Dentists acquired eight dental practices in New Zealand, taking the network to 63 practices across the country
- Dental Partners acquired 12 new dental practices, growing to 48 practices in Australia
- Officially opened new Dental Partners Head Office in Queensland
- Continuation of Lumino The Dentists' highly successful national TV advertising campaign
- Completion of Investor Roadshow with 26 presentations around New Zealand
- Appointment of Trevor Janes as chair and Susan Paterson as deputy chair of the Abano Board
- Appointment of Ted van Arkel to the Abano Board

FOLLOWING PERIOD END

- Announced investment into the greenfield development of a $4 million radiology centre in the new Millennium Institute of Sport and Health complex in Auckland
- Paid an interim dividend of 7.3 cents per share in January 2012
- In January 2012, acquired one dental practice in Australia and one practice in New Zealand

OUR STRATEGY

Abano has a proven strategy in place which provides the pathway to us achieving our vision. This strategy is built on five key components.

1. We will continue to partner and co-invest with the founders and leaders of successful, professional businesses which are or can be market leaders.
2. We will invest in equipment, technology, R&D and infrastructure to assist the growth of existing businesses, as well as identify new opportunities for acquisition and investment.
3. Our focus remains on businesses predominantly funded by private payment, rather than publicly funded healthcare contracts.
4. To remove volatility in our business, we will continue to diversify across markets, income streams and geographical regions.
5. We will continue to invest in our people to ensure we attract and retain leading professionals that are supportive of our financial objectives, while ensuring the highest clinical and ethical standards are maintained.

REGIONS OF BUSINESS

AUDIOLOGY

BAYAUDIO
HEARING EXPERTS

DIAGNOSTICS

Insight RADIOLOGY

ASCOT RADIOLOGY

GREEN LANE IMAGING

AOTEA PATHOLOGY

DENTAL

Lumino The Dentists

dp dentalpartners

REHABILITATION

abano rehabilitation

Orthotic Centre

FINANCIAL RESULTS

	SIX MONTHS ENDED 30 NOVEMBER 2011 ($M)	SIX MONTHS ENDED 30 NOVEMBER 2010 ($M)
Revenues	**102**	**86.7**
EBITDA	**11.7**	**10.3**
Add back acquisition costs	0.8	0.5
Underlying EBITDA*	**12.5**	**10.8**
Net profit after tax	**0.6**	**2.2**
Add back acquisition costs	0.6	0.5
Add back fair value amortisation of deferred acquisition liabilities	0.1	0.1
Underlying NPAT*	**1.3**	**2.8**
Earnings per share	3.62 cents per share	10.51 cents per share
Underlying earnings per share*	8.29 cents per share	13.51 cents per share
Interim dividend	7.3 cents per share	7.3 cents per share

The results for the Bay Group are now equity accounted and therefore no longer included in the consolidated EBITDA

*Further information on underlying earnings, which is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS, is available on the Abano website at www.abano.co.nz/underlyingearnings

For the six months to 30 November 2011, Abano Healthcare Group reported Revenues of $102.0 million, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $11.7 million and a Net Profit After Tax (NPAT) of $0.6 million.

Excluding the recent changes as required under the International Financial Reporting Standards (IFRS), underlying EBITDA was $12.5 million, resulting in an underlying NPAT of $1.3 million. The results are based on unaudited management accounts, and are in line with the guidance provided.

Consistent with the last three years, and demonstrating the Board's ongoing confidence in the underlying growth of NPAT from Abano's emerging dental and radiology businesses, an interim dividend of 7.3 cents per share was declared, and paid on 27 January 2012. The Dividend Reinvestment Plan was operational for this dividend payment.

Good growth was achieved in the period, compared to last year, with Revenue and EBITDA up 18 percent and 14 percent respectively. However, NPAT was down on the same period, reflecting the loss of the investment income from National Hearing Care which was sold in December 2010, an increased depreciation charge from accelerated investment in IT infrastructure, and one off facility fees associated with an additional debt facility in Australia. In addition, investment losses were incurred by our audiology 50:50 joint venture into Australia and Asia.

There are a number of recent changes under IFRS regulation which have had and will continue to have a significant impact on how we report our results. The main impact of these changes has been how we account for particular payments, costs and charges relating to acquisitions. Historically, most of these one off costs were capitalised whereas now they must be expensed.

As Abano is a growth company, the number and size of our acquisitions will continue to increase, which means the costs and charges arising from these acquisitions will negatively impact on our reported NPAT performance going forward.

Therefore, and as we have done previously, we will continue to report our underlying earnings, which the Board believes more appropriately represents the performance of the company, as well as provides a like for like comparison with previous years.

The company currently has a confirmed Australian debt facility of A$55 million, which is ring fenced for the development of our Dental Partners network in Australia, and a separate confirmed New Zealand debt facility of NZ$40 million, which will cover all of our investment plans in dentistry and radiology services in New Zealand as well as funding our share of the continued growth of Abano's 50:50 joint venture audiology business in the Australian and Asian markets.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Abano's growth during the period under review was pleasing, with our Australian and New Zealand dental groups in particular, making good progress and delivering strong earnings contributions.

Dental provides over half of the company's reported revenue and earnings and will continue to be an important and key growth area for Abano in the next three years.

In New Zealand our radiology group saw improving demand across all modalities in the first six month period, with good growth over the same period last year. Our orthotic group also grew with the new lower South Island contract, while our pathology and brain injury businesses produced steady results.

We continued strengthening our audiology business platforms in Asia and Australia, with ongoing investment into IT and the regional rollout of the Bay Audio brand and touch screen technologies. While these businesses are in an early establishment phase, investment costs are expensed through the Profit and Loss and it will be three to four more years before this business group breaks even, with profit contributions expected thereafter. As our audiology investment is held through a 50:50 joint venture, our share of the investment losses are equity accounted and not consolidated, and are therefore only reflected in Abano's NPAT.

Our growth strategy remains firmly in place, particularly in dental where we acquired 20 dental practices with over $28 million in annualised revenues, in Australia and New Zealand in the first six month period.

Following the period end, in February 2012 we were pleased to announce the expansion of our radiology group, with the planned development of a new $4 million radiology clinic in the new Millennium Institute of Sport and Health complex on Auckland's North Shore.

Abano currently has majority shareholdings in Ascot Radiology, which offers full modality imaging, and Insight Radiology, which provides a specialist ultrasound and obstetric ultrasound service.

The new Millennium clinic, which is a joint venture between these two businesses, will sit adjacent to Auckland Bone and Joint, one of the leading groups of orthopaedic surgeons in Auckland, and in close proximity to a number of leading clinical obstetricians on the North Shore.

As well as providing full modality imaging, the new clinic will offer a specialist musculoskeletal imaging service, and will also include a specialist 4D obstetric ultrasound suite, plain film suite and digital mammography.

This development, which will be completed by May 2012, will make Abano's radiology group one of New Zealand's fastest growing and largest specialist practices, and is in line with our stated plans to grow our investment in this sector, through co-investment with our radiologist partners.

Several Board and management changes were announced in the first six month period. Trevor Janes was appointed as chair and Susan Paterson was appointed as deputy chair of the Abano Board, following Alison Paterson's decision to step down as chair following the 2011 Annual Meeting.

Alison remains on the Board as an independent director until the 2012 Annual Meeting. Ted van Arkel also joined the Board as a new independent director and Richard Keys, the company's Chief Financial Officer, has had his position extended to include that of Chief Operating Officer.

OUTLOOK

Depressed economic conditions and lacklustre consumer confidence have persisted into the 2012 financial year. In New Zealand, we have seen increasing pressure on publicly funded health contracts and a continuation of depressed consumer and business confidence. In Australia, there is now a real decline in retail spending and a marked fall in consumer confidence.

In spite of this, Abano is seeing growth in revenues on a same store basis, underlining the relative resilience of healthcare spending in both markets. In line with our normal market guidance communications, as made over the last seven years, we will issue a full year forecast for the financial year ended 31 May 2012, in March 2012, once we have assessed trading over the Christmas and summer holiday break.

While we expect to see good growth continue at revenue and EBITDA for the full year, there will be a slight decrease in the bottom line performance at NPAT after expensing investment costs as required by IFRS. Due to our increased acquisition rate, we expect these one off acquisition costs to be higher than the previous financial year.

CHAIRMAN & MANAGING DIRECTOR'S REPORT CONTINUED

Good growth at NPAT is then expected into the 2013 financial year and beyond, as the investments and accelerated acquisitions made in the current period contribute positive earnings to our consolidated results.

Abano is in a regeneration phase, following the sale of our New Zealand audiology operations in 2010 and 2011. In the short to medium term, our dental businesses in Australia and New Zealand will be our primary income generators and we will continue to invest into an accelerated growth programme for both businesses.

Radiology in New Zealand is also becoming an important revenue generator and investment sector, and while the costs of developing the new Millennium clinic will be incurred in the second half of FY2012, we expect to see growing benefits from this investment from FY2013 onwards.

Our audiology businesses are still in an early stage investment, loss making phase as we continue to strengthen the business base and support infrastructure while building our networks in Australia and Asia. We expect to incur ongoing investment losses over the next three to four years, with positive earning contributions only becoming available after this time.

Our proven track record and Co-Invest and Build strategy continues to be the foundation of our company, and we will continue to invest into attractive healthcare businesses, alongside experienced and expert clinical leaders and business founders.

Abano has strong and growing operating cashflows and secured funding facilities in place with an experienced and expert management team and Board. Despite the ongoing downturn in the global economic environment, the Board and management are confident of our ability to grow and deliver a profitable and successful future for Abano's shareholders.

Trevor Janes
Chairman

Alan Clarke
Managing Director

Abano Healthcare Interim Financial Statements

For the six month period to 30 November 2011

abano healthcare group limited

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 November 2011 (unaudited)

	NOTE	NOV 2011 $000 TOTAL	NOV 2010 $000 TOTAL
Revenue		101,998	86,680
Patient consumables and cost of product sold		(17,647)	(15,157)
Employee benefits		(57,989)	(49,006)
Depreciation and amortisation expenses		(3,963)	(3,006)
Occupancy costs		(6,775)	(5,832)
Acquisition costs		(822)	(517)
Other operating expenses		(7,820)	(6,292)
Other operating income		754	380
Operating profit	2	**7,736**	**7,250**
Net financing costs		(2,212)	(1,162)
Fair value amortisation on deferred acquisition consideration		(161)	(121)
Gain on sale of subsidiary/business		-	70
Share of loss of associates and jointly controlled entities		(1,843)	(892)
Profit before income tax		**3,520**	**5,145**
Income tax expense		(1,997)	(1,930)
Profit for the period		**1,523**	**3,215**
Attributable to:			
Non-controlling interest share of profit		950	1,018
Equity holders of the Company share of profit		573	2,197
Profit for the period		**1,523**	**3,215**
		CENTS	CENTS
Earnings per share (basic and diluted)		3.62	10.51

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 November 2011 (unaudited)

	NOV 2011 $000	NOV 2010 $000
Profit for the period	**1,523**	**3,215**
Other comprehensive income		
Cash flow hedges, net of tax	(218)	159
Exchange differences on translating foreign operations	(975)	(663)
Foreign exchange movement on non-controlling interests	339	-
Total comprehensive income for the period	**669**	**2,711**
Total comprehensive income attributable to:		
Equity holders of the Company	(620)	1,693
Non-controlling interests	1,289	1,018
	669	**2,711**

CONSOLIDATED BALANCE SHEET

As at 30 November 2011 (unaudited)	Note	NOV 2011 $000	NOV 2010 $000	MAY 2011 $000
ASSETS				
Non-current assets				
Property, plant and equipment	3	35,469	28,802	33,638
Intangible assets		112,120	88,094	92,888
Investments in associates and jointly controlled entities		931	7,737	2,774
Non-current receivables		15,329	9,579	12,854
Deferred tax assets		2,004	984	1,976
Total non-current assets		**165,853**	**135,196**	**144,130**
Current assets				
Cash and cash equivalents		8,167	6,620	6,678
Trade and other receivables		11,240	10,595	12,421
Inventories		6,420	5,473	5,583
Current income tax assets		120	3,011	173
Assets held for sale		-	16,094	-
Derivative financial instruments		-	227	-
Total current assets		**25,947**	**42,020**	**24,855**
Total assets		**191,800**	**177,216**	**168,985**
EQUITY				
Share capital		15,889	41,375	13,972
Retained earnings		74,273	67,538	75,871
Cash flow hedge reserve		(323)	159	(105)
Foreign currency translation reserve		(2,381)	(755)	(1,406)
Total equity attributable to equity holders of the parent		**87,458**	**108,317**	**88,332**
Non-controlling interest		2,806	2,242	3,028
Total equity		**90,264**	**110,559**	**91,360**
LIABILITIES				
Non-current liabilities				
Borrowings	5	63,662	33,186	42,106
Trade and other payables		6,251	3,932	7,053
Deferred tax liabilities		561	460	649
Derivative financial instrument		449	-	146
Deferred acquisition consideration		5,956	4,806	3,992
Total non-current liabilities		**76,879**	**42,384**	**53,946**
Current liabilities				
Borrowings		2,562	2,543	2,187
Deferred acquisition consideration		1,741	1,097	920
Current income tax liabilities		345	2,604	657
Trade and other payables		20,009	18,029	19,915
Total current liabilities		**24,657**	**24,273**	**23,679**
Total liabilities		**101,536**	**66,657**	**77,625**
TOTAL EQUITY AND LIABILITIES		**191,800**	**177,216**	**168,985**
Net assets per share		$5.67	$5.29	$5.83
Net tangible assets per share*		($1.37)	$1.08	($0.10)

*Net assets less intangible assets

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 November 2011 (unaudited)

	Note	NOV 2011 $000	NOV 2010 $000
Cash flows from operating activities			
Receipts from customers		103,884	88,270
Payments to suppliers and employees		(91,406)	(75,430)
Interest received		320	184
Interest paid		(1,970)	(1,133)
Income tax paid		(2,287)	(2,310)
Net cash generated from operating activities	11	**8,541**	**9,581**
Cash flows from investing activities			
Sale of property, plant and equipment		17	-
Sale of subsidiaries/businesses		-	224
Purchase of intangible assets and property, plant and equipment		(3,479)	(3,183)
Purchase of subsidiaries/businesses		(19,657)	(10,140)
Dividends paid to non-controlling interest shareholders		(417)	(84)
Other investing cash flows		(2,475)	(4,493)
Net cash used in investing activities		**(26,011)**	**(17,676)**
Cash flows from financing activities			
Net proceeds from borrowings		19,939	12,810
Dividends paid		(2,170)	(2,895)
Equity raised		1,904	-
Net cash generated in financing activities		**19,673**	**9,915**
Net increase in cash held		**2,203**	**1,820**
Cash at beginning of the period		6,447	5,380
Net increase in cash held		2,203	1,820
Exchange loss on net assets held by foreign subsidiaries		(636)	(663)
Cash at end of period		**8,014**	**6,537**
Cash comprises			
Cash at bank		8,167	6,620
Bank overdrafts		(153)	(83)
		8,014	**6,537**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2011 (unaudited)

	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 2010	**41,865**	**(517)**	**(92)**	**-**	**68,237**	**109,493**	**3,897**	**113,390**
Comprehensive income								
Profit for the period					2,197	2,197	1,018	3,215
Other comprehensive income								
Cash flow hedges:								
Fair value gains				227		227		227
Tax benefit on fair value gains				(68)		(68)		(68)
Foreign exchange translation reserve			(663)			(663)		(663)
Total other comprehensive income	-	-	(663)	159	-	(504)	-	(504)
Total comprehensive income	**-**	**-**	**(663)**	**159**	**2,197**	**1,693**	**1,018**	**2,711**
Transactions with owners								
Dividends paid					(2,896)	(2,896)	(2,673)	(5,569)
Share options expense	27					27		27
Total transactions with owners	27	-	-	-	(2,896)	(2,869)	(2,673)	(5,542)
Balance at 30 November 2010	**41,892**	**(517)**	**(755)**	**159**	**67,538**	**108,317**	**2,242**	**110,559**
Balance at 1 June 2011	**14,312**	**(340)**	**(1,406)**	**(105)**	**75,870**	**88,331**	**3,028**	**91,359**
Comprehensive income								
Profit for the period					573	573	950	1,523
Other comprehensive income								
Cash flow hedges:								
Fair value gains				(303)		(303)		(303)
Tax benefit on fair value gains				85		85		85
Foreign exchange translation reserve			(975)			(975)		(975)
Foreign exchange movement on non-controlling interest							339	339
Total other comprehensive income	-	-	(975)	(218)	-	(1,193)	339	(854)
Total comprehensive income	**-**	**-**	**(975)**	**(218)**	**573**	**(620)**	**1,289**	**669**
Transactions with owners								
Dividends paid					(2,170)	(2,170)	(1,511)	(3,681)
Dividend reinvestment plan	987					987		987
2008 share scheme - put expired, shares issued and paid for	918					918		918
2008 share scheme - transfer of shares from treasury stock	(340)	340						
Share options expense	12					12		12
Total transactions with owners	1,577	340	-	-	(2,170)	(253)	(1,511)	(1,764)
Balance at 30 November 2011	**15,889**	**-**	**(2,381)**	**(323)**	**74,273**	**87,458**	**2,806**	**90,264**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Statement of Accounting Policies

Except as described below, the accounting policies used in the preparation of the interim financial statements are consistent with those of the financial statements for the year ended 31 May 2011.

The interim financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS34: Interim Financial Reporting. These interim financials statements should be read in conjunction with the annual financial statements for the year ended 31 May 2011, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards.

2. Segment Information

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 Abano Board. Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions.

The reportable operating segments have been determined as Dental, Diagnostics and Rehabilitation. Jointly controlled Audiology entities are accounted for using the equity method as prescribed for investments in associates.

	NOV 2011 $000	NOV 2010 $000
Operating result for reportable segments	**9,405**	**8,447**
Unallocated corporate overheads	(1,669)	(1,197)
Operating Profit	**7,736**	**7,250**
Net financing costs	(2,212)	(1,162)
Fair value amortisation on deferred acquisition consideration	(161)	(121)
Gain on sale of business	-	70
Share of loss of associates	(1,843)	(892)
Profit before income tax and discontinued operations	**3,520**	**5,145**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

	REHABILITATION		DIAGNOSTICS		DENTAL		TOTAL	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000
Segment revenue	11,583	11,286	19,802	19,065	70,613	56,329	101,998	86,680
Segment operating results[1]	1,600	1,562	2,628	2,714	5,177	4,171	9,405	8,447
Depreciation and amortisation	**97**	**119**	**1,088**	**836**	**2,719**	**1,985**	**3,904**	**2,940**
Unallocated							59	66
							3,963	**3,006**
Acquisition costs					**769**	**517**	**769**	**517**
Unallocated							53	-
							822	**517**
Total assets	**17,094**	**17,385**	**35,002**	**32,303**	**120,371**	**90,005**	**172,467**	**139,693**
Investment in associates and jointly controlled entities							931	7,737
Unallocated							18,402	29,786
							191,800	**177,216**
Total liabilities	**1,966**	**3,091**	**14,951**	**13,269**	**65,612**	**40,581**	**82,529**	**56,941**
Unallocated							19,007	9,716
							101,536	**66,657**
Capital expenditure	**31**	**33**	**267**	**374**	**2,383**	**2,486**	**2,681**	**2,893**

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

3. Property, Plant and Equipment

During the period to 30 November 2011 the Group acquired property, plant and equipment with a cost of $2,681,484 (30 November 2010: $2,896,498).

An additional $2,693,674 of property, plant and equipment was acquired as part of business acquisitions during the period (30 November 2010: $2,109,028).

4. Acquisition of Businesses

During the period to 30 November 2011 the Group acquired the following businesses for a total cash consideration of $19.2m. All acquisitions were asset purchases with the Group obtaining 100% control.

	Acquisition Date
Orthodontics (Queensland)	1-Jun-11
Keri Dental Centre (Kerikeri)	3-Jun-11
Feldbush Dental Surgery (New South Wales)	7-Jun-11
Sapsford Dental Surgery (Mosgiel)	24-Jun-11
Rotorua Dental Centre (Rotorua)	30-Jun-11
Dental Partners Reynella (South Australia)	22-Jul-11
Cotton Tree Implant & Periodontics (Queensland)	27-Jul-11
Geographe Bay Dental (Western Australia)	25-Aug-11
Matters Dental (Queensland)	29-Aug-11
Amanda McKeon & Alex Parragi (Australian Capital Territory)	31-Aug-11
Dental Integrity (Western Australia)	29-Sep-11
Dental House (New Plymouth)	30-Sep-11
Capital Periodontics & Implants (Australian Capital Territory)	30-Sep-11
South Coast Dental Care (New South Wales)	4-Oct-11
Smile Creations (Levin, Otaki & Waikanae)	14-Oct-11
Lindsay Robinson Dental (Hamilton)	31-Oct-11
Fit Face (Christchurch)	1-Nov-11
Dr JA Chau Dental Surgeons (Tasmania)	18-Nov-11

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Summary of the effect of the acquisitions:

	DENTAL $000
Fair value of net assets acquired:	
Current assets	1,277
Current liabilities	(391)
Non-current assets	2,694
Goodwill on acquisition	15,601
Consideration paid	**19,181**
Deferred acquisition consideration	3,235
Total consideration	**22,416**
Goodwill on acquisition	15,601
Deferred acquisition consideration	3,235
Total goodwill recognised	**18,836**

The acquired businesses have contributed revenue and EBITDA to the Group, in the period from their acquisition date to 30 November 2011, of $7.0m and $1.5m respectively.

The revenue and EBITDA had the businesses and assets been acquired at the beginning of the period are estimated at $14.3m and $3.8m respectively.

The deferred consideration for some of the acquired businesses includes an earnout component, which represents an adjustment to the purchase consideration based on the business outperforming profitability levels at the time of acquisition. The maximum amount payable under the earnout component is unlimited and is dependant on the businesses performance, therefore it was deemed impractical to present a range of outcomes for the deferred acquisition consideration.

5. Borrowings

The Group's net bank debt as at 30 November 2011 was $55.1m (30 November 2010: $26m).

The Group currently has facilities of $45m with ASB ($7.3m utilised) and A$55m with Commonwealth Bank of Australia (A$34.9m utilised).

6. Amalgamation of Subsidiaries

On 1 June 2011 Orthotic Centre (Midland) Limited and Orthotic Centre (Wellington) Limited were amalgamated with Orthotic Centre (NZ) Limited. The Group held a 100% shareholding in all three companies.

7. Dividend Reinvestment Plan

Under the Dividend Reinvestment Plan (DRP), applied to the dividend paid on 24 August 2011, 240,942 shares were issued at $4.13 per share.

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 of 10 August 2011, less a 2.5% discount.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8. Expired 2008 Executive Share Scheme

On 1 December 2008, 203,097 shares were issued under the employee share scheme approved by the shareholders on 25 November 2008.

The employees elected to acquire all shares issued under the scheme for the original issue price of $4.52 per share. The scheme ended on 31 May 2011. The Board confirmed the performance criteria had been met over the duration of the scheme and the shares were transferred from treasury to ordinary shares and there are now no outstanding obligations under this scheme. No expense was recognised for the period ended 30 November 2011 (2010:$26,000)

9. Subsequent Events - 2011 Executive Share Scheme

On 7 November 2011 the Board approved the Executive Share Scheme (the Scheme), under waivers from the NZX rules 7.6.4(b)(iii) and 7.6.1(f)(i).

The Scheme consists of an incentive share scheme and an outperformance share scheme.

The Scheme provides for certain employees to be issued shares (Share Scheme Shares), for which the Company provides an interest free loan. 226,666 Share Scheme Shares were issued on 5 December 2011 at $4.05 per share, being the volume weighted average price over the previous twenty trading days. A loan of $918,000 was provided to employees on this date to acquire the Share Scheme Shares.

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

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

The employees hold put options which may be exercised at the end of the Scheme at a price of $4.05 per share.

The proceeds from the exercising of the put options are to be used to repay any outstanding loan.

If the employee exercises the put option, they become entitled to a performance bonus equal to the value of the shares issued on 5 December 2011 under the incentive share scheme.

The fair value of the employee's option to receive shares at the end of the Scheme at the issue price of $4.05 has been valued using the Black Scholes model. The option was valued at $85,429 and the Group is recognising this value as an executive compensation expense over the period of service.

10. General Information

The Group is a profit-orientated limited liability entity incorporated and domiciled in New Zealand, with businesses in New Zealand, Australia, Hong Kong, Malaysia, Singapore and Taiwan.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

11. Reconciliation of Operating Cash Flows

For the six months ended 30 November 2011 (unaudited)

	NOV 2011 $000	NOV 2010 $000
Profit for the period	**573**	**2,197**
Non-cash items:		
Depreciation	3,636	2,803
Amortisation of intangible assets	327	203
Utilisation/(recognition) of deferred tax asset	57	(168)
Fair value amortisation on deferred acquisition consideration	161	121
Executive compensation expense	12	27
Non-controlling interest share of profit	950	1,018
	5,143	4,004
Movement in working capital:		
Decrease in trade and other receivables	345	824
Increase/(decrease) in trade and other payables	(233)	1,077
	112	1,901
Items classified as investing activities:		
Realised loss on sale of property, plant and equipment	48	-
Share of loss in jointly controlled entity	1,843	892
Acquisition costs	822	517
Other investment income	-	70
	2,713	1,479
Net cash flows from operating activities	**8,541**	**9,581**

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