ABANO HEALTHCARE

ANNUAL REPORT

FOR THE YEAR ENDED 31 MAY 2014

abano healthcare group limited

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 Company and the Group as at 31 May 2014 and their financial performance and cash flows for the year ended on that date.

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

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

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

The directors have pleasure in presenting the financial statements of Abano Healthcare Group Limited, set out on pages 3 to 42, for the year ended 31 May 2014.

The financial statements presented on the following pages were authorised for issue on 28 July 2014.

For and on behalf of the Board

Trevor Janes
CHAIRMAN

Alan Clarke
MANAGING DIRECTOR

Independent Auditors' Report

to the shareholders of Abano Healthcare Group Limited

Report on the Financial Statements

We have audited the financial statements of Abano Healthcare Group Limited ("the Company") on pages 3 to 42, which comprise the balance sheets as at 31 May 2014, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 May 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Abano Healthcare Group Limited or any of its subsidiaries other than in our capacities as auditors and through the provision of accounting technical services and other assurance services. In addition, certain partners and employees of our firm may have dealt with the Company and Group on normal terms within the ordinary course of the trading activities of the Company and Group. These services have not impaired our independence as auditors of the Company and the Group.

Opinion

In our opinion, the financial statements on pages 3 to 42:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 May 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 May 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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.

PricewaterhouseCoopers

Chartered Accountant — Auckland
28 July 2014

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INCOME STATEMENT

For the year ended 31 May 2014	NOTE	GROUP MAY 2014 $000	GROUP MAY 2013 $000	COMPANY MAY 2014 $000	COMPANY MAY 2013 $000
Revenue	3	211,051	207,035	-	-
Patient consumables and cost of products sold		(38,051)	(38,281)	-	-
Employee benefits		(111,080)	(109,389)	(2,183)	(2,484)
Depreciation and amortisation expenses		(10,058)	(9,293)	(61)	(72)
Occupancy costs		(15,585)	(14,902)	(125)	(124)
Acquisition and transaction costs		(1,280)	(919)	(25)	(61)
Other operating expenses	4	(18,245)	(16,488)	(1,819)	(1,055)
Other operating income	5	993	615	4,486	4,684
Operating profit		**17,745**	**18,378**	**273**	**888**
Finance income	6	607	539	413	318
Finance expenses	6	(6,606)	(6,361)	(2,072)	(1,864)
Fair value amortisation and revaluation of deferred acquisition consideration	6/20	250	(474)	-	-
Realised foreign exchange loss		(14)	-	(14)	-
Impairment of investment	13	-	-	(2,194)	(5,821)
Gain on sale of subsidiaries	10	-	1,563	-	2,247
Share of loss of jointly controlled entities	11	(2,194)	(5,821)	-	-
Profit before income tax		**9,788**	**7,824**	**(3,594)**	**(4,232)**
Income tax expense	7	(3,729)	(3,769)	1,489	1,235
Profit/(loss) for the year		**6,059**	**4,055**	**(2,105)**	**(2,997)**
Attributable to:					
Equity holders of the Company share of profit/(loss)		**4,859**	**2,813**	**(2,105)**	**(2,997)**
Non-controlling interests share of profit		1,200	1,242	-	-
		6,059	**4,055**	**(2,105)**	**(2,997)**
		CENTS	**CENTS**		
Earnings per share from continuing operations (basic and diluted)	17	24.97	16.61		

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2014	NOTE	GROUP MAY 2014 $000	GROUP MAY 2013 $000	COMPANY MAY 2014 $000	COMPANY MAY 2013 $000
Profit/(loss) for the year		**6,059**	**4,055**	**(2,105)**	**(2,997)**
Other comprehensive income/(loss)					
Items that may be subsequently reclassified to Income Statement					
Cash flow hedges, net of tax		301	681	(9)	200
Exchange differences on translating foreign operations		(2,209)	(132)	-	-
Gain on common control transaction	10	-	-	-	971
Total comprehensive income/(loss) for the year		**4,151**	**4,604**	**(2,114)**	**(1,826)**
Total comprehensive income/(loss) attributable to:					
Equity holders of the Company		2,951	3,362	(2,114)	(1,826)
Non-controlling interests		1,200	1,242	-	-
		4,151	**4,604**	**(2,114)**	**(1,826)**

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 14.

All other comprehensive income items relate to continuing operations.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2014

GROUP	NOTE	SHARE CAPITAL $000	TREASURY SHARES $000	FOREIGN EXCHANGE TRANSLATION RESERVE $000
Balance at 1 June 2012		**17,286**	**(918)**	**(1,365)**
Comprehensive income				
Profit for the year		-	-	-
Other comprehensive income				
Cash flow hedge movement				
Fair values losses		-	-	-
Tax benefit on fair value losses		-	-	-
Foreign exchange translation reserve		-	-	(132)
Total other comprehensive income		-	-	(132)
Total comprehensive income		**-**	**-**	**(132)**
Transactions with owners				
Dividends paid	18	-	-	-
Dividend reinvestment plan	16/18	1,816	-	-
Shares issued	16	1,992	-	-
Decrease in non-controlling interest on purchase of shares	10	-	-	-
Net cost of acquisition of non-controlling interest	10	-	-	-
Increase in non-controlling interest on merger/sale of shares	10	-	-	-
Share options expense	25	28	-	-
Foreign investor tax credits recognised		-	-	-
Total transactions with owners		**3,836**	**-**	**-**
Balance at 31 May 2013		**21,122**	**(918)**	**(1,497)**
Balance at 1 June 2013		**21,122**	**(918)**	**(1,497)**
Comprehensive Income				
Profit for the year		-	-	-
Other comprehensive income				
Cash flow hedge movement				
Fair values losses		-	-	-
Tax benefit on fair value losses		-	-	-
Foreign exchange translation reserve		-	-	(2,209)
Total other comprehensive income		-	-	(2,209)
Total comprehensive income		**-**	**-**	**(2,209)**
Transactions with owners				
Dividends paid	18	-	-	-
Dividend reinvestment plan	16/18	2,035	-	-
Shares issued	16	17,755	-	-
Change in non-controlling interest		-	-	-
Share options expense	25	28	-	-
Foreign investor tax credits recognised		-	-	-
Total transactions with owners		**19,818**	**-**	**-**
Balance at 31 May 2014		**40,940**	**(918)**	**(3,706)**

CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
(2,491)	**74,157**	**86,669**	**3,307**	**89,976**
-	2,813	2,813	1,242	4,055
899		899	-	899
(218)		(218)	-	(218)
-		(132)	-	(132)
681	-	549	-	549
681	**2,813**	**3,362**	**1,242**	**4,604**
-	(3,600)	(3,600)	(1,657)	(5,257)
-	-	1,816	-	1,816
-	-	1,992	-	1,992
-	2,153	2,153	(2,153)	-
-	(17,915)	(17,915)	-	(17,915)
-	(239)	(239)	271	32
-	-	28	-	28
-	65	65	-	65
-	**(19,536)**	**(15,700)**	**(3,539)**	**(19,239)**
(1,810)	**57,434**	**74,331**	**1,010**	**75,341**
(1,810)	**57,434**	**74,331**	**1,010**	**75,341**
-	4,859	4,859	1,200	6,059
375	-	375	-	375
(74)	-	(74)	-	(74)
-	-	(2,209)	-	(2,209)
301	-	(1,908)	-	(1,908)
301	**4,859**	**2,951**	**1,200**	**4,151**
-	(3,886)	(3,886)	(1,221)	(5,107)
-	-	2,035	-	2,035
-	-	17,755	-	17,755
-	327	327	276	603
-	-	28	-	28
-	53	53	-	53
-	**(3,506)**	**16,312**	**(945)**	**15,367**
(1,509)	**58,787**	**93,594**	**1,265**	**94,859**

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 May 2014

COMPANY	NOTE	SHARE CAPITAL $000	TREASURY SHARES $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL $000
Balance at 1 June 2012		**17,286**	**(918)**	**(455)**	**53,589**	**69,502**
Comprehensive income						
Profit for the year		-	-	-	(2,997)	(2,997)
Other comprehensive income						
Cash flow hedge movement						
Fair values losses		-	-	278	-	278
Tax benefit on fair value losses		-	-	(78)	-	(78)
Gain relating to common control transaction	10	-	-	-	971	971
Total other comprehensive income		-	-	200	971	1,171
Total comprehensive income		**-**	**-**	**200**	**(2,026)**	**(1,826)**
Transactions with owners						
Dividends paid	18	-	-	-	(3,600)	(3,600)
Dividend reinvestment plan	16/18	1,816	-	-	-	1,816
Shares issued	16	1,992	-	-	-	1,992
Share options expense	25	28	-	-	-	28
Foreign investor tax credits recognised		-	-	-	65	65
Total transactions with owners		**3,836**	**-**	**-**	**(3,535)**	**301**
Balance at 31 May 2013		**21,122**	**(918)**	**(255)**	**48,028**	**67,977**
Balance at 1 June 2013		**21,122**	**(918)**	**(255)**	**48,028**	**67,977**
Comprehensive income						
Profit for the year		-	-	-	(2,105)	(2,105)
Other comprehensive income						
Cash flow hedge movement						
Fair values losses		-	-	(12)	-	(12)
Tax benefit on fair value losses		-	-	3	-	3
Total other comprehensive income		-	-	(9)	-	(9)
Total comprehensive income		**-**	**-**	**(9)**	**(2,105)**	**(2,114)**
Transactions with owners						
Dividends paid	18	-	-	-	(3,886)	(3,886)
Dividend reinvestment plan	16/18	2,035	-	-	-	2,035
Shares issued	16	17,755	-	-	-	17,755
Share options expense	25	28	-	-	-	28
Foreign investor tax credits recognised		-	-	-	53	53
Total transactions with owners		**19,818**	**-**	**-**	**(3,833)**	**15,985**
Balance at 31 May 2014		**40,940**	**(918)**	**(264)**	**42,090**	**81,848**

BALANCE SHEET

As at 31 May 2014

		GROUP		COMPANY	
	NOTE	MAY 2014 $000	MAY 2013 $000	MAY 2014 $000	MAY 2013 $000
ASSETS					
Non-current assets					
Property, plant and equipment	8	40,599	39,456	42	67
Intangible assets	9	138,656	126,403	61	30
Investments in subsidiaries	10	-	-	20,138	20,138
Derivative financial instruments	12	-	-	180	-
Non-current receivables	13	14,776	14,443	12,408	12,943
Deferred tax assets	14	3,309	2,901	2,265	2,022
Total non-current assets		**197,340**	**183,203**	**35,094**	**35,200**
Current assets					
Cash and cash equivalents		6,279	8,547	1,164	1,273
Trade and other receivables	13	13,165	12,233	79,275	77,682
Inventories	15	7,490	7,601	-	-
Derivative financial instruments	12	16	-	16	-
Total current assets		**26,950**	**28,381**	**80,455**	**78,955**
Total assets		**224,290**	**211,584**	**115,549**	**114,155**
EQUITY					
Share capital	16	40,022	20,204	40,022	20,204
Foreign currency translation reserve		(3,706)	(1,497)	-	-
Cash flow hedge reserve		(1,509)	(1,810)	(264)	(255)
Retained earnings		58,787	57,434	42,090	48,028
Total equity attributable to equity holders of the Company		**93,594**	**74,331**	**81,848**	**67,977**
Non-controlling interest		1,265	1,010	-	-
Total equity		**94,859**	**75,341**	**81,848**	**67,977**
LIABILITIES					
Non-current liabilities					
Borrowings	19	82,004	90,586	30,844	43,605
Non-current payables	21	5,444	6,810	807	548
Deferred tax liabilities	14	37	320	-	-
Derivative financial instruments	12	2,026	2,642	562	355
Deferred acquisition consideration	20	6,798	6,142	-	-
Provisions	23	445	350	-	-
Total non-current liabilities		**96,754**	**106,850**	**32,213**	**44,508**
Current liabilities					
Borrowings	19	1,945	2,008	-	54
Derivative financial instruments	12	135	-	-	-
Current income tax liabilities		2,165	1,460	-	-
Deferred acquisition consideration	20	1,929	2,807	-	-
Trade and other payables	21	26,475	23,091	1,488	1,616
Provisions	23	28	27	-	-
Total current liabilities		**32,677**	**29,393**	**1,488**	**1,670**
Total liabilities		**129,431**	**136,243**	**33,701**	**46,178**
TOTAL EQUITY AND LIABILITIES		**224,290**	**211,584**	**115,549**	**114,155**

STATEMENT OF CASH FLOWS

For the year ended 31 May 2014

	NOTE	GROUP MAY 2014 $000	GROUP MAY 2013 $000	COMPANY MAY 2014 $000	COMPANY MAY 2013 $000
Cash flows from operating activities					
Receipts from customers		242,709	232,981	793	698
Payments to suppliers and employees		(209,673)	(203,929)	(4,009)	(3,860)
Interest received		607	956	413	318
Interest paid		(6,465)	(5,591)	(2,077)	(1,342)
Income tax paid		(3,854)	(3,678)	-	-
Net cash generated from operating activities		**23,324**	**20,739**	**(4,880)**	**(4,186)**
Cash flows from investing activities					
Sale of property, plant and equipment		-	101	-	-
Sale of subsidiaries/businesses		-	5,380	-	5,380
Purchase of intangible assets and property, plant and equipment		(8,734)	(11,468)	(67)	(12)
Purchase of subsidiaries/businesses		(23,254)	(35,911)	(25)	(61)
Dividends paid to non-controlling interests		(1,221)	(1,658)	-	-
Dividends received		-	-	3,642	4,035
Other investing cash flows		(1,535)	(4,286)	(1,654)	(4,133)
Net cash used in investing activities		**(34,744)**	**(47,842)**	**1,896**	**5,209**
Cash flows from financing activities					
Net proceeds from borrowings		(6,218)	21,244	(12,975)	(853)
Equity raised - dividend reinvestment plan	16	2,035	1,816	2,035	1,816
Equity raised - shares issued	16	17,755	1,992	17,755	1,992
Dividends paid		(3,886)	(3,600)	(3,886)	(3,600)
Net cash used in financing activities		**9,686**	**21,452**	**2,929**	**(645)**
Net increase/(decrease) in cash held		**(1,734)**	**(5,651)**	**(55)**	**378**
Cash at beginning of the year		8,493	11,042	1,219	841
Net increase/(decrease) in cash held		(1,734)	(5,651)	(55)	378
Exchange gain/(loss) on cash and cash equivalents held by foreign subsidiaries		(480)	3,102	-	-
Cash at end of year		**6,279**	**8,493**	**1,164**	**1,219**
Cash comprises:					
Cash at bank		6,279	8,547	1,164	1,273
Bank overdrafts	19	-	(54)	-	(54)
		6,279	**8,493**	**1,164**	**1,219**

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 May 2014

RECONCILIATION OF OPERATING CASH FLOWS

	GROUP		COMPANY	
	MAY 2014 $000	MAY 2013 $000	MAY 2014 $000	MAY 2013 $000
Profit/(loss) for the year	**4,859**	**2,813**	**(2,105)**	**(2,997)**
Non-cash items:				
Depreciation	9,284	8,518	34	36
Amortisation of intangible assets	774	775	27	36
Utilisation/(recognition) of deferred tax asset	(642)	(317)	(241)	302
Fair value amortisation and revaluation of deferred acquisition consideration	(250)	474	-	-
Foreign investor tax credits recognised	53	65	53	65
Executive compensation expense	28	28	28	28
Share of surplus retained by non-controlling interest	1,200	1,242	-	-
Impairment of investment	-	-	2,194	5,821
	10,447	10,785	2,095	6,288
Movement in working capital:				
(Increase)/decrease in trade and other receivables	(1,039)	(1,045)	(36)	49
(Decrease)/increase in trade and other payables	4,423	2,779	(1,217)	(1,305)
Decrease/(increase) in inventories	1,160	230	-	-
	4,544	1,964	(1,253)	(1,256)
Items classified as investing activities:				
Realised (gain)/loss on sale of property, plant and equipment	-	(1)	-	-
Realised gain on sale of subsidiary	-	(1,562)	-	(2,247)
Dividends received	-	-	(3,642)	(4,035)
Acquisition and divestment costs	1,280	919	25	61
Share of loss in jointly controlled entity	2,194	5,821	-	-
	3,474	5,177	(3,617)	(6,221)
Net cash flows from operating activities	**23,324**	**20,739**	**(4,880)**	**(4,186)**

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL INFORMATION

Abano Healthcare Group Limited (the Company) is a healthcare and medical service provider. The Company is a listed public company, incorporated and domiciled in New Zealand. There is no parent or ultimate parent as the shares are widely held.

The consolidated financial statements of the Company for the year ended 31 May 2014, comprise the Company and its subsidiaries (together the Group) and the Group's interest in associates and jointly controlled entities.

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

STATEMENT OF COMPLIANCE

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, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The Group has designated itself as a profit-oriented entity for the purposes of complying with NZ IFRS. The Group and Company financial statements also comply with IFRS.

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

The financial statements were approved by the Board of Directors (the Board) on 28 July 2014.

BASIS OF PREPARATION

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

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

COMPARATIVE INFORMATION

During the year ended 31 May 2014 the Company now recognises management fees received from subsidiaries as Other Income as opposed to Revenue. To provide an accurate comparison, the amounts for 31 May 2013 have been reclassified and revenue was decreased by $0.6M and other income was increased by $0.6M. This reclassification is not material and had no impact on operating profit and the statement of cash flows for the year ended 31 May 2013.

During the year ended 31 May 2014 the Group now recognises income received in advance on a purchasing card separate from trade receivables. To provide an accurate comparison, the amounts for 31 May 2013 have been reclassified. The effect of this is an increase in trade and other receivables of $0.6M and a corresponding increase in trade and other payables of $0.6M. In the Statement of Cash flows, cash receipts from customers decreased by $0.6M and cash payments to suppliers and employees decreased by $0.6M. This reclassification is not material and had no impact on net cash generated by the Group and no impact on operating profit for the year ended 31 May 2013.

During the year ended 31 May 2014 the Group now recognises inventories acquired in business combinations in the cash flows from investing activities in the Statement of Cash Flows. To provide an accurate comparison, the amounts for 31 May 2013 have been reclassified. The effect of this is to increase net cash generated from operating activities by $0.8M and increase net cash used in investing activities by $0.8M. The reconciliation of operating cash flows will now recognise separately the movement in inventories of $0.2M. This was achieved by decreasing the movement in trade and other payables. This reclassification is not material and had no impact on net cash generated by the Group and no impact on operating profit for the year ended 31 May 2013.

BASIS OF CONSOLIDATION

Subsidiaries

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.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. 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 minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Associates

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

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

Jointly controlled entities

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 as prescribed above for investments in associates. In the Company financial statements the investments in jointly controlled entities are recognised at cost or fair value, less any impairment.

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.

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.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Leasehold improvements	5 - 20 years
Computer and office equipment	3 - 5 years
Motor vehicles	3 - 7 years
Plant and equipment	5 - 10 years

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

INTANGIBLE ASSETS

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Negative goodwill arising on an acquisition is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is assessed at the lowest level for which there are separately identifiable cash flows (cash generating units). Each of these cash generating units represent the Group's investment in each sector by primary reporting segment.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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.

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

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

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

INVESTMENTS

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

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

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

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

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

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

Derivative financial instruments and hedging activities
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. The Group designates certain derivatives as a hedge of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

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.

INVENTORIES

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

TRADE RECEIVABLES

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

TRADE AND OTHER PAYABLES

The amounts 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.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

SHARE CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

BORROWINGS

Bank borrowings

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

All borrowing costs are expensed.

INCOME TAX

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.

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

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

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

PROVISIONS

Provisions 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.

LEASES

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

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

EMPLOYEE BENEFITS

Short-term employee benefits

Employee entitlements to salaries, wages and annual leave, to be settled within 12 months of reporting date represent present obligations resulting from 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 represent long-service leave which vests to the employee after varying periods of service. The Group's net obligation in respect of long-service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised in the income statement.

Share-based compensation

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

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

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

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

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

SEGMENT REPORTING

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 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.

Diagnostics – The Group has operations in two areas of this sector – Pathology and Radiology. Pathology services include collection, testing and reporting of pathology tests from community based patients. The majority of revenue comes from local DHB contracts with the remainder from private testing, commercial testing and research. Radiology services provide 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. Both businesses operate within New Zealand.

Audiology - The Group invests in a joint venture to operate this sector. The results are equity accounted and not consolidated with the Group. This sector provides professional clinical audiology services, particularly hearing tests, the supply and fitting of hearing aid devices, and follow up consultations, all of which are provided to both private patients as well as publicly funded patients. The Group has businesses operating in this sector in Australia, Malaysia, Singapore and Taiwan.

Rehabilitation – This sector provides a full range of clinical orthotic services and specialist products. The majority of revenue is from DHB contracts and ACC. The business operates within New Zealand.

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.

Judgements made by management in applying the Group's accounting policies have not resulted in any significant effect on the amounts recognised in the financial statements.

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

- Impairment of goodwill and intangibles with indefinite useful lives (note 9)
- Estimation of useful lives of assets (note 1)
- Carrying value of the jointly controlled entity (notes 11 and 13)
- Provision for impairment of trade receivables (note 13)
- Fair value measurement of financial instruments (notes 20 and 24).

FINANCIAL RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

Interest-rate risk
The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cashflow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair-value interest-rate risk. Group policy is to maintain a minimum level of 40% and maximum of 100% fixed rate debt on forecast debt terms. The Group manages its interest-rate risk through the use of interest rate swaps.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group has adopted the following new and amended NZ IFRSs as of 1 June 2013:

- **Amendment to NZ IAS 1, 'Financial Statement Presentation'** regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- **NZ IFRS 10, 'Consolidated Financial Statements', NZ IFRS 11 'Joint Arrangements', NZ IFRS 12 'Disclosure or Interests in Other Entities, and NZ IFRS 13 'Fair value measurement'** as part of its new suite of consolidation and related standards, replacing and amending a number of existing standards and pronouncements. Each of these standards was effective for annual reporting periods beginning on or after 1 January 2013, with early adoption permitted. The Group has concluded that these standards have no impact on its consolidated 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:

- **IFRS 9, 'Financial instruments', (effective for 31 May 2016 reporting period).** IFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. Early adoption is permitted. The Group has yet to assess the full impact of IFRS 9 and appropriate timing of adoption.
- **IFRS 15, 'Revenue from contracts with customers', (effective for 31 May 2018 reporting period).** 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 IAS 18 Revenue, 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. 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 IFRS 15 is permitted. The Group has yet to assess the full impact of IFRS 15 and appropriate timing of adoption.

CHANGES IN ACCOUNTING POLICIES

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

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

For the year ended May 2014	Dental $000	Diagnostics $000	Audiology $000	Rehabilitation $000	Corporate $000	Segment Total $000	Equity Account for Audiology $000	Reported Total $000
Gross revenue	188,375	42,674	31,636	11,288	-	273,973	(31,636)	242,337
Revenue	157,089	42,674	31,636	11,288	-	242,687	(31,636)	211,051
Earnings before interest, tax, depreciation and amortisation (EBITDA)	20,867	7,788	(2,791)	2,292	(3,144)	25,012	2,791	27,803
Depreciation and amortisation	(7,304)	(2,608)	(2,087)	(85)	(61)	(12,145)	2,087	(10,058)
Operating profit								**17,745**
Net financing costs								(5,749)
Realised foreign exchange loss								(14)
Share of loss of jointly controlled entities								(2,194)
Net profit before tax								**9,788**
Acquisition costs included in EBITDA	1,255	-	-	-	25	1,280	-	1,280
TOTAL ASSETS	**158,685**	**38,490**	**23,638**	**12,537**	**14,578**	**247,928**	**(23,638)**	**224,290**
TOTAL LIABILITIES	**83,490**	**12,780**	**50,818**	**1,253**	**31,908**	**180,249**	**(50,818)**	**129,431**
CAPITAL EXPENDITURE	**8,105**	**489**	**542**	**66**	**67**	**9,269**	**(542)**	**8,727**

For the year ended May 2013	Dental $000	Diagnostics $000	Audiology $000	Rehabilitation $000	Corporate $000	Segment Total $000	Equity Account for Audiology $000	Reported Total $000
Gross revenue	177,803	41,522	25,816	12,689	-	257,830	(25,816)	232,014
Revenue	152,824	41,522	25,816	12,689	-	232,851	(25,816)	207,035
Earnings before interest, tax, depreciation and amortisation (EBITDA)	20,001	7,810	(7,744)	2,473	(2,613)	19,927	7,744	27,671
Depreciation and amortisation	(6,539)	(2,586)	(2,893)	(96)	(72)	(12,186)	2,893	(9,293)
Operating profit								**18,378**
Net financing costs								(6,296)
Share of loss of jointly controlled entities								(5,821)
Gain on sale of subsidaries								1,563
Net profit before tax								**7,824**
Acquisition costs included in EBITDA	805	88	-	26	-	919	-	919
TOTAL ASSETS	**144,459**	**39,246**	**25,565**	**12,856**	**15,023**	**237,149**	**(25,565)**	**211,584**
TOTAL LIABILITIES	**75,507**	**14,782**	**47,085**	**1,245**	**44,709**	**183,328**	**(47,085)**	**136,243**
CAPITAL EXPENDITURE	**6,991**	**5,501**	**900**	**38**	**12**	**13,442**	**(900)**	**12,542**

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (CONTINUED)

ENTITY WIDE DISCLOSURES	NEW ZEALAND		AUSTRALIA		REST OF WORLD		TOTAL	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Revenues from external customers[1]	130,632	122,995	106,660	104,613	5,395	5,243	242,687	232,851
Total non-current assets	109,617	95,077	106,305	88,810	6,427	7,490	222,349	191,377

[1] Revenue includes revenue from the equity accounted Bay International Group.

During the financial year the Group earned $26.4M (2013: $25.2M) from a single external customer, which accounted for more than 10% of revenue during the year. This revenue was recognised across the Group's Diagnostic, Dental and Rehabilitation segments.

3. REVENUE

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Sale of goods	11,689	12,020	-	-
Services rendered	199,362	195,015	-	-
	211,051	**207,035**	**-**	**-**

4. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Operating expenses include:				
Directors' fees	479	537	380	369
Donations	17	49	12	34
Net loss on sale of plant & equipment	125	78	-	-
Rental expense on operating leases	10,181	9,888	100	96
Auditors' fees				
Audit services - PwC New Zealand	273	268	91	87
Audit services - PwC Australia	78	68	-	-
Other services provided[1]	20	30	20	19

[1] Other services provided included internal controls review and shareholder voting scrutineering.

5. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Operating income includes:				
Dividends received from subsidiaries	-	-	3,642	4,035
Rental income	183	212	-	-
Management fees	-	-	437	579
Sundry other income	810	403	407	70
	993	**615**	**4,486**	**4,684**

NOTES TO THE FINANCIAL STATEMENTS

6. NET FINANCING COSTS

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Financial income				
Cash and cash equivalents	607	539	413	318
	607	539	413	318
Financial expenses				
Bank borrowings	(5,896)	(5,545)	(2,072)	(1,864)
Other borrowings	(710)	(816)	-	-
Fair value amortisation and revaluation of deferred acquisition and consideration	250	(474)	-	-
	(6,356)	(6,835)	(2,072)	(1,864)
Net financing costs	**(5,749)**	**(6,296)**	**(1,659)**	**(1,546)**

7. INCOME TAX EXPENSE

	NOTE	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Current tax expense					
Current year		4,693	4,561	(1,403)	(1,234)
(Over)/under provision for prior years		(430)	(134)	2	(8)
		4,263	4,427	(1,401)	(1,242)
Deferred tax expense					
Movement in temporary differences		(945)	(786)	(80)	(1)
Under/(over) provision for prior years		411	128	(8)	8
	14	(534)	(658)	(88)	7
Total income tax expense in income statement		**3,729**	**3,769**	**(1,489)**	**(1,235)**

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Reconciliation of accounting profit/(loss) and taxable income				
Profit/(loss) before tax	9,788	7,824	(3,594)	(4,232)
Taxation at 28%	2,741	2,191	(1,006)	(1,185)
Impact of difference in Australian tax rate	111	127	-	-
Share of loss of jointly controlled entity	614	1,630	-	-
Non deductible items	459	512	22	78
Write down of investment in jointly controlled entity	-	-	614	1,630
Tax exempt dividends	-	-	(1,020)	(1,130)
Recognition of tax losses	-	(271)	-	-
Non assessable items	(177)	(413)	(93)	(629)
Prior period adjustment	(19)	(7)	(6)	-
Total income tax expense in income statement	**3,729**	**3,769**	**(1,489)**	**(1,236)**

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE (CONTINUED)

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	2,129	1,214	145	136

The above amounts 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.

8. PROPERTY, PLANT AND EQUIPMENT

GROUP	NOTE	LEASEHOLD IMPROVEMENTS $000	PLANT & EQUIPMENT $000	MOTOR VEHICLES $000	WORK IN PROGRESS $000	TOTAL $000
AT 1 JUNE 2012						
Cost		14,825	56,423	1,214	242	72,704
Accumulated depreciation		(8,365)	(28,055)	(973)	-	(37,393)
Net book value		**6,460**	**28,368**	**241**	**242**	**35,311**
YEAR ENDED 31 MAY 2013						
Opening net book value		6,460	28,368	241	242	35,311
Acquired through business combinations		248	1,888	-	-	2,136
Additions		4,017	6,943	453	101	11,514
Disposals		(26)	(117)	(2)	(170)	(315)
Foreign exchange movement		(126)	(540)	(1)	(5)	(672)
Depreciation		(1,288)	(7,102)	(128)	-	(8,518)
Closing net book value		**9,285**	**29,440**	**563**	**168**	**39,456**
AT 1 JUNE 2013						
Cost		18,877	64,028	1,665	168	84,738
Accumulated depreciation		(9,592)	(34,588)	(1,102)	-	(45,282)
Net book value		**9,285**	**29,440**	**563**	**168**	**39,456**
YEAR ENDED 31 MAY 2014						
Opening net book value		9,285	29,440	563	168	39,456
Acquired through business combinations		527	3,002	-	-	3,529
Additions		2,013	5,867	158	-	8,038
Transfers	9	-	58	-	(65)	(7)
Disposals		(20)	(148)	-	-	(168)
Foreign exchange movement		(187)	(764)	(1)	(13)	(965)
Depreciation		(1,680)	(7,430)	(174)	-	(9,284)
Closing net book value		**9,938**	**30,025**	**546**	**90**	**40,599**
AT 31 MAY 2014						
Cost		21,106	71,437	1,795	90	94,428
Accumulated depreciation		(11,168)	(41,412)	(1,249)	-	(53,829)
Net book value		**9,938**	**30,025**	**546**	**90**	**40,599**

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	PLANT & EQUIPMENT	
	2014 $000	2013 $000
Cost - capitalised finance leases	12,973	12,973
Accumulated depreciation	(6,448)	(5,033)
Net book value	**6,525**	**7,940**

COMPANY	LEASEHOLD IMPROVEMENTS $000	PLANT & EQUIPMENT $000	TOTAL $000
AT 1 JUNE 2012			
Cost	337	425	762
Accumulated depreciation	(332)	(339)	(671)
Net book value	**5**	**86**	**91**
YEAR ENDED 31 MAY 2013			
Opening net book value	5	86	91
Additions	-	12	12
Depreciation	(1)	(35)	(36)
Closing net book value	**4**	**63**	**67**
AT 1 JUNE 2013			
Cost or valuation	337	437	774
Accumulated depreciation	(333)	(374)	(707)
Net book value	**4**	**63**	**67**
YEAR ENDED 31 MAY 2014			
Opening net book value	4	63	67
Additions	-	9	9
Depreciation	(1)	(33)	(34)
Closing net book value	**3**	**39**	**42**
AT 31 MAY 2014			
Cost or valuation	337	446	783
Accumulated depreciation	(334)	(407)	(741)
Net book value	**3**	**39**	**42**

The Company does not have any assets that are subject to a finance lease.

NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

	NOTE	GROUP GOODWILL $000	GROUP OTHER $000	GROUP TOTAL $000	COMPANY GOODWILL $000	COMPANY OTHER $000	COMPANY TOTAL $000
AT 1 JUNE 2012							
Cost or valuation		114,701	7,034	121,735	-	335	335
Accumulated amortisation		(2,156)	(4,667)	(6,823)	-	(269)	(269)
Net Book Value		**112,545**	**2,367**	**114,912**	**-**	**66**	**66**
YEAR ENDED 31 MAY 2013							
Opening net book value		112,545	2,367	114,912	-	66	66
Additions		-	1,029	1,029	-	-	-
Disposals		-	(33)	(33)	-	-	-
Acquisition of businesses	10	14,335	5	14,340	-	-	-
Foreign exchange movement		(3,255)	(78)	(3,333)	-	-	-
Fair value movement		263	-	263	-	-	-
Amortisation charge		-	(775)	(775)	-	(36)	(36)
Closing Net Book Value		**123,888**	**2,515**	**126,403**	**-**	**30**	**30**
AT 1 JUNE 2013							
Cost or valuation		126,044	7,957	134,001	-	335	335
Accumulated amortisation		(2,156)	(5,442)	(7,598)	-	(305)	(305)
Net Book Value		**123,888**	**2,515**	**126,403**	**-**	**30**	**30**
YEAR ENDED 31 MAY 2014							
Opening net book value		123,888	2,515	126,403	-	30	30
Additions		-	689	689	-	58	58
Transfers	8	-	7	7	-	-	-
Disposals		-	(2)	(2)	-	-	-
Acquisition of businesses	10	18,304	13	18,317	-	-	-
Foreign exchange movement		(6,024)	(97)	(6,121)	-	-	-
Fair value movement		137	-	137	-	-	-
Amortisation charge		-	(774)	(774)	-	(27)	(27)
Closing Net Book Value		**136,305**	**2,351**	**138,656**	**-**	**61**	**61**
AT 31 MAY 2014							
Cost or valuation		138,461	8,473	146,934	-	393	393
Accumulated amortisation		(2,156)	(6,122)	(8,278)	-	(332)	(332)
Net Book Value		**136,305**	**2,351**	**138,656**	**-**	**61**	**61**

NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill
Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment.
A segment-level summary of the goodwill allocation is presented below:

	2014 $000	2013 $000
Rehabilitation	9,054	9,054
Diagnostics	12,598	12,598
Dental		
- New Zealand	40,166	36,841
- Australia	74,487	65,395
	136,305	**123,888**

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 calculations use cash flow projections derived from the Group's strategic plan forecasts. These forecasts cover a four year period.

Cash flows beyond the four-year period are extrapolated using an estimated growth rate of 2% (2013: 2%). The growth rate does not exceed the long-term average growth rate for the sectors in which the CGU's operate. Cash flows are discounted at a pre-tax discount rate of 9.5% (2013: 10%).

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

The carrying value has been assessed and no impairment is required.

10. INVESTMENTS IN SUBSIDIARIES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Shares in subsidiaries	-	-	20,138	20,138

The Company's investments in subsidiaries comprises shares at cost.

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

		LEGAL INTEREST HELD BY GROUP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	2014	2013
Abano Dental Limited	Dental	100%	100%
Dental Partners Pty Limited	Dental	100%	100%
Dental Investments Holdings Limited[1]	Dental	-	100%
Kidz Teeth Limited	Dental	70%	70%
Lumino Dental Limited	Dental	100%	100%
Abano Radiology Limited	Diagnostic	100%	100%
Aotea Pathology Limited	Diagnostic	55%	55%
Ascot Radiology Limited[2]	Diagnostic	70%	73%
Millennium Radiology Limited[2]	Diagnostic	-	73%
Wellington Pathology Limited	Diagnostic	100%	100%
Orthotic Centre (NZ) Limited	Rehabilitation	100%	100%

1 On 29 May 2014, notification to de-register Dental Investment Holdings Limited was approved by the Australian Securities and Investments Commission.

2 On 30 September 2013 Ascot Radiology Limited and Millennium Radiology Limited were amalgamated to become Ascot Radiology Limited.

The balance date of all subsidiaries is 31 May.

Dental Partners Pty Limited and Dental Investments Holdings Limited are incorporated in Australia. All other entities are incorporated in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

AMALGAMATION OF SUBSIDIARIES AND CHANGE IN NON-CONTROLLING INTERESTS

Current Year

On 30 September 2013, Millennium Radiology Limited (Millennium) was amalgamated with Ascot Radiology Limited (Ascot). Ascot held a 100% shareholding in Millennium. On 31 October 2013, Ascot issued 1,766 shares to new radiologist shareholders for consideration of $780,040. Immediately following the share issue the Group acquired 400 shares in Ascot from Mr R Davis for consideration of $176,680. Following these transactions the Group's shareholding in Ascot was reduced from 72.89% to 69.76%.

Prior Year

On 1 November 2012 the Group restructured its investment in the Radiology business. As a result of the restructure and change in non-controlling interests, the Group's shareholding in Ascot Radiology Limited increased from 73.22% to 74.4% and the Company realised a gain of $1M that is eliminated in the Group financial statements.

ACQUISITION OF SUBSIDIARIES

Current Year

No new subsidiaries were acquired during the current year.

Prior Year

On 23 June 2012 the Group made an offer of A$14.04M to acquire 100% of the shares of Dental Investments Holdings Limited (DIHL), an Australian company which held a 30% shareholding in Dental Partners Pty Limited (Dental Partners), the Group's Australian dental business.

On 26 July 2012 the Group achieved 100% acceptance of the offer for a cost of NZ$17.9M, settled in cash and shares.

ACQUISITION OF BUSINESSES

During the year the Group acquired the following businesses:

Smiles 4 Everybody (Queensland)	13 Jun 13
Clare Dental (South Australia)	21 Jun 13
QV1 Dental (Western Australia)	31 Jul 13
Bay Dental Care & Family Ortho (Queensland)	15 Aug 13
Thorne Dental (New South Wales)	29 Aug 13
Ilam Orthodontics (Christchurch)	31 Aug 13
Dr Garry Hibble Dental (South Australia)	27 Sep 13
Murray Orr Dental (Auckland)	30 Sep 13
Pioneer Dental (Queensland)	8 Oct 13
Milton Dental (Milton)	31 Oct 13
Dannievirke Family Dentist (Dannievirke)	13 Dec 13
Channon & Lawrence Dental (Queensland)	17 Dec 13
Tuggeranong Orthodontic Centre (ACT)	19 Dec 13
Michael Barber Periodontic (Queensland/ New South Wales)	4 Feb 14
Art of Dentistry (Queensland)	6 Mar 14
Seymour Smiles Dental (Blenheim)	12 Apr 14
Landing Road Dental (Whakatane)	30 May 14

Summary of the effect of the acquisitions:

	NOTE	DENTAL $000
Fair value of net assets acquired:		
Current assets		1,327
Current liabilities		(757)
Non-current assets		3,528
Goodwill on acquisition		15,294
Cash consideration paid		**19,392**
Deferred acquisition consideration		3,010
Total consideration		**22,402**
Goodwill on acquisition		15,294
Deferred acquisition consideration	20	3,010
Total goodwill recognised	9	**18,304**
Purchase consideration:		
Cash paid		19,392
Deferred acquisition consideration		3,010
Total purchase consideration		**22,402**

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

The contribution to the Group EBITDA, after additional related support costs, since acquisition to 31 May 2014 is $3.9M.

The annualised revenue and EBITDA had the business and assets been acquired at the beginning of the period are estimated at $20.9M and $6.0M respectively.

The Group performs a sensitivity analysis of the fair value of the deferred acquisition consideration as set out in notes 20 and 24.

DISPOSAL OF SUBSIDIARY

Prior Year

In April 2013, a new associate radiologist was introduced as an equity partner in Ascot Radiology Limited and Abano Radiology Limited sold 400 shares (1.51% shareholding) for $160,000, reducing its shareholding to 72.89%.

On 31 May 2012 the Company signed a conditional offer from Bupa Care Services NZ Limited for the sale of its Brain Rehabilitation business, Abano Rehabilitation Limited. Following satisfaction of the conditions the transaction was settled on 29 June 2012 for a sale price of $5.7M, resulting in a gain on sale of $1.6M. At 31 May 2012 the assets and liabilities of the Brain Rehabilitation business were disclosed in the Balance Sheet under the heading of "Subsidiary classified as held for sale". The Brain Rehabilitation business has not been disclosed as a discontinued operation as it does not represent a major line of business for the Group.

11. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group continues to have interests in audiology in Australia and Asia through its investment in Bay International Limited.

As the Group has joint control in this entity, any profit or loss from its 50% shareholding in Bay International Limited is accounted for under the equity method.

The Group's investments in jointly controlled entities that are equity accounted comprises:

		2014	2013
Bay International Limited	Audiology	50%	50%
Bay Audio Pty Limited [1]	Audiology	47.5%	47.5%
Bay Audiology (Hong Kong) Limited [1]	Audiology	-	50%
Bay Audiology (Singapore) PTE Limited [1]	Audiology	50%	50%
Bay Audiology (Malaysia) SDN. BHD. [1]	Audiology	50%	50%
Bay Audiology (Taiwan) Limited [1]	Audiology	50%	50%

[1] Direct subsidiaries of Bay International Limited

Bay Audio Pty Limited is incorporated in Australia, Bay Audiology (Hong Kong) Limited is incorporated in Hong Kong, Bay Audiology (Singapore) PTE Limited is incorporated in Singapore, Bay Audiology (Malaysia) SDN. BHD is incorporated in Malaysia and Bay Audiology (Taiwan) Limited is incorporated in Taiwan. Along with Bay International Limited these companies form the Bay Group.

In the Company accounts the investment in the Bay Group is accounted for per NZ IAS 27, which measures the investment and advances at cost less any impairment.

The impairment analysis performed for the Group investment in the Bay Group shows no impairment necessary in the Group accounts. There is sufficient headroom and the Board considered that there are no reasonably conceivable circumstances that would alter the assumptions sufficiently to erode this.

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

	NOTE	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Balance at beginning of the year		-	-	-	-
Share of loss		(2,194)	(5,821)	-	-
Share of losses offset against loan to Bay International Limited	13	2,194	5,821	-	-
Balance at end of the year		**-**	**-**	**-**	**-**

Summary of aggregated financial information for equity accounted investments, all of which are unlisted, are as follows:

	2014 $000	2013 $000
Current assets	6,319	8,041
Non-current assets	17,319	17,524
Current liabilities	50,437	46,685
Non-current liabilities	381	400
Equity	(27,180)	(21,520)
Revenues	31,636	26,266
Profit/(Loss)[1]	(4,388)	(11,641)

[1] During the 2014 financial year the Bay Group sold its Hong Kong subsidiary with a resulting loss on disposal of $0.3M. This transaction was included in the equity accounted results of the Bay Group.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP 2014 $000		GROUP 2013 $000		COMPANY 2014 $000		COMPANY 2013 $000	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps - cash flow hedges	16	2,161	-	2,642	16	382	-	355
Interest rate swaps	-	-	-	-	180	180	-	-
	16	**2,161**	**-**	**2,642**	**196**	**562**	**-**	**355**
Current portion	16	135	-	-	16	-	-	-
Non-current portion	-	2,026	-	2,642	180	562	-	355
	16	**2,161**	**-**	**2,642**	**196**	**562**	**-**	**355**

Interest rate swaps

The notional principal amounts of outstanding interest rate swap contracts for the Group at 31 May 2014 were $78.7M (2013: $59.1M).

At 31 May 2014 the fixed rates vary from 3.1% to 4.9% payable (2013: 3.1% to 4.9%) and the floating rates receivable are BKBM in NZD and BBSY in AUD.

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.

NOTES TO THE FINANCIAL STATEMENTS

13. TRADE AND OTHER RECEIVABLES

		GROUP		COMPANY	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Current					
Trade receivables		11,275	10,450	-	-
Prepayments		1,245	1,215	174	130
Other receivables		645	568	61	26
Owing from subsidiaries	26	-	-	79,040	77,526
		13,165	**12,233**	**79,275**	**77,682**
Non-current					
Owing from related parties		2,368	1,500	-	-
Owing from jointly controlled entity	26	12,408	12,943	12,408	12,943
		14,776	**14,443**	**12,408**	**12,943**
Impairment of trade receivables					
Neither past due or impaired		8,186	7,449		
Past due but not impaired		3,139	3,051		
Impaired		573	582		
Gross		11,898	11,082		
Less provision for impairment of receivables		(623)	(632)		
		11,275	**10,450**		

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

	GROUP	
	2014 $000	2013 $000
Opening balance	632	576
Provision for doubtful debts recognised during the year	87	101
Release of over accured doubtful debt in prior year	(12)	(5)
Foreign exchange movement	(27)	(40)
Receivables written off during the year as uncollectable	(57)	-
Closing balance	**623**	**632**

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

Movement in non-current amount owing from jointly controlled entity:

		GROUP		COMPANY	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Opening balance		12,943	14,621	12,943	14,621
Funds advanced		1,659	4,143	1,659	4,143
Share of loss offset against loan	11	(2,194)	(5,821)	-	-
Impairment of loan receivable		-	-	(2,194)	(5,821)
Closing balance		**12,408**	**12,943**	**12,408**	**12,943**

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED INCOME TAX

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

	NOTE	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Balance at start of year		2,581	2,403	2,022	2,402
Acquisition of subsidiary		138	59	-	-
Charge to equity (cashflow hedges)		(74)	(219)	3	(78)
Benefit of tax losses utilised		-	(215)	(1,460)	(1,755)
Foreign exchange movement		(158)	(105)	-	-
Recognition of tax losses		251	-	1,612	1,460
Income statement charge	7	534	658	88	(7)
Balance at end of year		**3,272**	**2,581**	**2,265**	**2,022**

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

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Property, plant and equipment	(1,249)	(1,648)	35	31
Employee benefits	2,319	1,786	513	411
Trade and other receivables	203	182	-	-
Trade and other payables	1,094	1,163	-	19
Benefit of tax loss recognised	251	280	1,612	1,462
Derivative financial instruments	651	792	105	99
Other items	3	26	-	-
	3,272	**2,581**	**2,265**	**2,022**

Included in the Balance Sheet as:

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Deferred tax assets non-current	3,309	2,901	2,265	2,022
Deferred tax liabilities non-current	(37)	(320)	-	-
	3,272	**2,581**	**2,265**	**2,022**

Charges to the income statement are attributable to the following:

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Movement in:				
Property, plant and equipment	350	186	4	8
Employee benefits	702	430	102	25
Trade and other receivables	27	25	-	-
Trade and other payables	(38)	120	(18)	(40)
Other items				
Ineffective movement in Derivatiive financial instruments	(18)	-	-	-
Foreign exchange movement	(78)	25	-	-
Prior year under provision	(411)	(128)	-	-
	534	**658**	**88**	**(7)**

NOTES TO THE FINANCIAL STATEMENTS

15. INVENTORIES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Raw materials and consumables	5,952	5,894	-	-
Work in progress	195	158	-	-
Finished goods and goods for sale	1,343	1,549	-	-
	7,490	**7,601**	**-**	**-**

The Group has recognised a loss of $9,000 (2013: $4,000) in respect of inventories written down. The loss has been included in Patient Consumables and Cost of Products Sold in the Income Statement.

16. SHARE CAPITAL

	NUMBER OF SHARES 000	ORDINARY SHARES $000	TREASURY SHARES $000	TOTAL $000
At 31 May 2012	**16,256**	**17,286**	**(918)**	**16,368**
Share option expense	-	28	-	28
Shares issued to Mr D Garofalo & Mr M Timoney - shares issued	486	1,992	-	1,992
Dividend reinvestment plan - shares issued	359	1,816	-	1,816
At 31 May 2013	**17,101**	**21,122**	**(918)**	**20,204**
Share option expense	-	28	-	28
Dividend reinvestment plan - shares issued	327	2,035	-	2,035
Placement - shares issued	1,554	8,895	-	8,895
Share purchase plan - shares issued	1,555	8,860	-	8,860
At 31 May 2014	**20,537**	**40,940**	**(918)**	**40,022**

As at 31 May 2014 there were 20,537,479 ordinary shares on issue (2013: 17,100,672). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. There is no other class of share issued.

During the year, the following share transactions took place:

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 23 August 2013 (2013: 24 August 2012). 200,586 (2013: 257,210) shares were issued at $6.30 (2013: $4.55) per share.

The DRP was also applied to the dividend paid on 24 January 2014 (2013: 29 January 2013). 126,719 (2013: 101,785) shares were issued at $6.21 (2013: $6.41) per share.

Placement

On 2 September 2013, the Company issued 1,554,622 fully paid ordinary shares pursuant to a placement to selected institutions and other eligible persons. The shares were issued at $5.95 per share with the $9.25M (before issue costs) placement being the first part of the equity raising programme announced to the market on 28 August 2013.

Share Purchase Plan

The equity raising programme was completed on 8 October 2013 with the issue by the Company of 1,554,880 fully paid ordinary shares to existing shareholders. The issue price was confirmed at $5.95 per share to raise $9.25M (before issue costs) under the share purchase plan.

All shares issued rank equally in all respects with existing ordinary shares in the Company on the date on which they were issued.

PRIOR YEAR

Shares issued to Mr D Garofalo & Mr M Timoney

During the prior year, 485,414 shares were issued to Mr D Garofalo and Mr M Timoney, directors and shareholders of Dental Investment Holdings Limited (DIHL) which held a 30% shareholding in Dental Partners Pty Limited (Dental Partners). The shares were issued at $4.12 per share, being the average market price of the preceding 20 business days before the announcement on 23 June 2012 of the offer to acquire DIHL and was funded from the sale proceeds of their shares in DIHL. Refer note 10 for further details of the acquisition of non-controlling interest in Dental Partners.

NOTES TO THE FINANCIAL STATEMENTS

17. EARNINGS PER SHARE

	GROUP	
	2014 $000	2013 $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	4,859	2,813
Weighted average number of ordinary shares on issue	19,455	16,938
Basic earnings per share (cents)	24.97	16.61

18. DIVIDENDS - ORDINARY SHARES

			GROUP		COMPANY	
	2014 Cents	2013 Cents	2014 $000	2013 $000	2014 $000	2013 $000
Interim dividend for the year ended 31 May 2014	7.3	-	1,510	-	1,510	-
Final dividend for the year ended 31 May 2013	13.7	-	2,376	-	2,376	-
Interim dividend for the year ended 31 May 2013	-	7.3	-	1,265	-	1,265
Final dividend for the year ended 31 May 2012	-	13.7	-	2,335	-	2,335
Dividends paid to non-controlling interests			1,221	1,657	-	-
	21.0	21.0	5,107	5,257	3,886	3,600

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

Supplementary dividends of $52,596 (2013: $64,755) were paid to shareholders not tax resident in New Zealand of which the Company received a foreign investor tax credit entitlement.

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 2014, 327,305 shares with a total value of $2.04 million were issued in lieu of cash dividends (2013: $1.82M).

19. BORROWINGS

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Current borrowings				
Bank overdraft	-	54	-	54
Unsecured loans	1,945	1,954	-	-
	1,945	2,008	-	54
Non-current borrowings				
Secured bank loans	82,004	90,179	30,844	43,605
Unsecured loans	-	407	-	-
	82,004	**90,586**	**30,844**	**43,605**

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS (CONTINUED)

During 2014 the Group extended every one of its Loan Facilities with ASB Bank Limited (ASB) by one year. There were no other changes to the terms of the loan facilitiies.

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

REVOLVING TRANCHES	CURRENCY	AUD FACILITY AUD$000	MATURITY DATE	FACILITY $000	DRAWN AS OF 31 MAY 2014	UNDRAWN AS OF 31 MAY 2014	APPLICABLE INTEREST RATE AS OF 31 MAY 2014
Revolving Credit Facility Tranche A	AUD	25,000	1 June 2016	27,385	27,385	-	1 month BBSY + 0.800%
Revolving Credit Facility Tranche B	AUD	30,000	30 June 2017	32,862	23,864	8,998	1 month BBSY + 0.925%
Acquisition Revolving Credit Facility	AUD	30,000	1 July 2018	32,862	-	32,862	1 month BBSY + 1.000%
				93,109	51,249	41,860	

The Acquisition Revolving Credit facility is currently undrawn and until such time as it is utilised Dental Partners will incur a fee of 0.5% per annum until the earlier of 31 May 2014 or the date of the first drawing.

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 2014	UNDRAWN AS OF 31 MAY 2014	APPLICABLE INTEREST RATE AS OF 31 MAY 2014
Revolving Credit Facility Tranche A	NZD, AUD, HKD, SGD	15 December 2017	30,000	10,950	19,050	3 month BKBM + 0.925%
Revolving Credit Facility Tranche B	NZD, AUD, HKD, SGD	30 September 2016	20,000	20,000	-	3 month BKBM + 0.80%
			50,000	30,950	19,050	

The Facilities are secured by way of a general security agreement over the Group's assets and undertakings. Additionally ASB has a first-ranking security interest over the assets of Bay International Limited that ranks pari passu with our joint venture partner's security interest.

The Facilities contain customary covenants 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 also subject to specific cash flow covenants. The Group has complied with these covenants at all stages during the year.

The Group's overdraft facilities have a limit of $1 million. As at 31 May 2014 the Group's effective interest rate, including line fees, is 6.65%.

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED ACQUISITION CONSIDERATION

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Current deferred acquistion consideration				
Acqusition retention amounts	1,590	2,156	-	-
Acqusition earn-out liabilities	339	651	-	-
	1,929	**2,807**	**-**	**-**
Non-current deferred acquistion consideration				
Acqusition retention amounts	5,456	4,765	-	-
Acqusition earn-out liabilities	1,342	1,377	-	-
	6,798	**6,142**	**-**	**-**
Term schedule				
Later than one year, less than two	3,037	2,024	-	-
Later than two years, less than five	3,761	4,118	-	-
Over five years	-	-	-	-
	6,798	**6,142**	**-**	**-**
Reconciliation - deferred consideration				
Opening balance at start of year	8,949	7,637	-	-
Deferred consideration paid during year	(2,541)	(1,604)	-	-
Deferred consideration on new acquisitions	3,010	2,997	-	-
Fair value amortisation on deferred acquisitions	320	371	-	-
Foreign exchange variance	(549)	(457)		
Prior deferred consideration revalued against goodwill	108	(98)	-	-
Prior deferred consideration revalued (recognised in Income Statement)	(570)	103	-	-
Closing balance at end of year	**8,727**	**8,949**	**-**	**-**

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.

Refer note 24 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

21. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Current				
Accounts payable	8,535	7,868	253	172
Employee entitlements	9,989	8,858	972	915
Finance leases	1,781	1,428	-	-
Sundry creditors and accruals	6,170	4,937	263	529
	26,475	**23,091**	**1,488**	**1,616**
Non-current				
Finance leases	4,180	5,957	-	-
Employee entitlements	1,264	853	807	548
	5,444	**6,810**	**807**	**548**

22. LEASES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
OPERATING LEASES				
Non-cancellable operating lease obligations				
Not later than one year	11,098	9,645	114	116
Later than one year, not later than five	24,382	21,304	263	377
Later than five years	1,299	833	-	-
Total lease commitments	**36,779**	**31,782**	**377**	**493**

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
FINANCE LEASES				
Non-cancellable finance lease obligations				
Not later than one year	2,140	1,932	-	-
Later than one year, not later than five	4,711	6,847	-	-
Later than five years	-	-	-	-
Total gross lease commitments	**6,851**	**8,779**	**-**	**-**
Future finance charges on finance leases	(890)	(1,394)	-	-
Present value of finance lease liabilities	**5,961**	**7,385**	**-**	**-**
Present value of finance lease liabilities is as follows:				
Not later than one year	1,781	1,428	-	-
Later than one year, not later than five	4,180	5,957	-	-
Later than five years	-	-	-	-
	5,961	**7,385**	**-**	**-**

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

23. PROVISIONS

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Opening balance at start of year	377	-	-	-
Foreign exchange movement	(13)	-	-	-
Provisions made during the year	109	377	-	-
Provisions used during the year	-	-	-	-
Closing balance at end of the year	**473**	**377**	**-**	**-**
Current	28	27	-	-
Non-current	445	350	-	-
	473	**377**	**-**	**-**

Make good provisions reflect the contractual obligation included in some operating leases to reinstate rental premises to their original condition at the end of the lease term.

24. FINANCIAL MANAGEMENT RISK

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 uses derivative financial instruments to hedge certain risk exposures.

The Group's overall financial risk management objectives as approved by the Board are to ensure that the Group creates value and maximises returns to its shareholders as well as ensuring that adequate financial resources are available for the development of the Group's business whilst managing its financial risks. 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

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters, while optimising the return.

The Group uses derivatives to manage market risks. All such transactions are carried out within the policies set by the Board. Generally, the Group seeks to apply hedge accounting to manage volatility in profit or loss.

(a) Foreign Exchange Risk

The Group's risk management policy is to hedge 100% of anticipated foreign cash flows within the Rehabilitation sector (being USD purchases of inventory for the orthotics business). The balance of receipts and payments for New Zealand and Australian based subsidiaries are made in their respective local currencies.

Where possible the Group takes advantage of natural offsets in foreign exchange exposure to the extent possible. Therefore when commercially feasible, the Group borrows in the same currencies in which cash flows from operations are generated. Generally the Group does not use forward exchange contracts to hedge residual foreign currency exchange risk arising from customary receipts and payments denominated in foreign currencies. However, when considered appropriate, the Group may enter into forward exchange contracts to hedge foreign currency exchange risk arising from specific transactions.

The Group does not hedge its exposure to translation gains or losses in respect of its non NZ dollar functional currency assets or liabilities.

The Group is exposed to foreign currency exchange risk on related party borrowings to its jointly controlled entities with different functional currencies. The net balance on this loan at 31 May 2014 was NZ$2.9 million (2013: NZ$4.6M). A 10% increase in the exchange rates, applied as of 31 May 2014 would have resulted in additional foreign currency exchange loss of $131,138 (2013: $210,546), while a 10% decrease would have resulted in an increase of $160,280 (2013: 257,334) to Abano's share of the equity accounted results of the jointly controlled entities.

(b) Interest Rate Risk

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's debt obligations with floating interest rates. The Group's policy to manage cash flow 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 hedging is that a minimum of 40% to a maximum of 100% of borrowings are covered by fixed rate interest and/or fixed rate interest swaps.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL MANAGEMENT RISK (CONTINUED)

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:

GROUP	NOTE	REPRICING LESS THAN 1 YEAR $000	REPRICING 1-5 YEARS $000	REPRICING OVER 5 YEARS $000	TOTAL $000
As at 31 May 2014					
Floating rate instruments					
Cash		6,279	-	-	6,279
Total bank borrowings		(82,200)	-	-	(82,200)
Total variable rate instruments		(75,921)	-	-	(75,921)
Effect of interest rate swaps					
Notional values of interest rate swaps used in cash flow hedges	12	15,954	49,267	13,477	78,698
Unhedged exposure to variable rate interest					**2,777**
As at 31 May 2013					
Floating rate instruments					
Cash		8,547	-	-	8,547
Total bank borrowings		(90,518)	-	-	(90,518)
Total variable rate instruments		(81,971)	-	-	(81,971)
Effect of interest rate swaps					
Notional values of interest rate swaps used in cash flow hedges	12	-	48,355	10,757	59,112
Unhedged exposure to variable rate interest					**(22,859)**

COMPANY	NOTE	REPRICING LESS THAN 1 YEAR $000	REPRICING 1-5 YEARS $000	REPRICING OVER 5 YEARS $000	TOTAL $000
As at 31 May 2014					
Floating rate instruments					
Cash		1,164	-	-	1,164
Interest bearing intercompany receivables		8,325	-	-	8,325
Total bank borrowings		(30,950)	-	-	(30,950)
Total variable rate instruments		(21,461)	-	-	(21,461)
Effect of interest rate swaps					
Notional values of interest rate swaps used in cash flow hedges	12	5,000	17,500	8,000	30,500
Unhedged exposure to variable rate interest					**9,039**
As at 31 May 2013					
Floating rate instruments					
Cash		1,273	-	-	1,273
Interest bearing intercompany receivables		7,328	-	-	7,328
Total bank borrowings		(43,659)	-	-	(43,659)
Total variable rate instruments		(35,058)	-	-	(35,058)
Effect of interest rate swaps					
Notional values of interest rate swaps used in cash flow hedges	12	-	12,500	-	12,500
Unhedged exposure to variable rate interest					**(22,558)**

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL MANAGEMENT RISK (CONTINUED)

The tables below demonstrate the Group's and Company'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 and Company's profit before tax.

GROUP	2014 INTEREST RATE RISK				2013 INTEREST RATE RISK			
	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY
Net unhedged cash exposure	28	28	(28)	(28)	(229)	(229)	229	229

COMPANY	2014 INTEREST RATE RISK				2013 INTEREST RATE RISK			
	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY
Net unhedged cash exposure	90	90	(90)	(90)	(226)	(226)	226	226

Interest rate swaps

At 31 May 2014 the fixed rate swaps vary from 3.1% to 4.9% payable (2013: 3.1% to 4.9%) and the floating rates receivable are BKBM in NZD and BBSY in AUD.

Foreign exchange forward contract

The Group has exposure to foreign currency risk as a result of purchases denominated in USD from normal trading activities.
The foreign exchange contract entered into in June 2013 expired in May 2014.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities.

Individual operating entities within the Group are responsible for their own cash management. Short term investment of cash surpluses and the raising of loans to cover expected cash demands, are arranged and negotiated by the Company.

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.

The following table details the remaining contractual maturities at balance date of the Group's and the Company's financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay.

GROUP 2014	CARRYING VALUE $000	LESS THAN 1 YEAR $000	BETWEEN 1 & 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000
Financial Assets					
Interest rate swap derivatives	16	5	-	-	5
Total	**16**	**5**	**-**	**-**	**5**
Financial Liabilities					
Borrowings	83,949	4,238	89,729	-	93,967
Trade and other payables	20,666	16,845	4,711	-	21,556
Interest rate swap derivatives	2,161	1,274	2,733	121	4,128
Deferred acquisition consideration	8,727	1,966	7,488	-	9,454
Total	**115,503**	**24,323**	**104,661**	**121**	**129,105**
2013					
Financial Liabilities					
Borrowings	92,594	4,782	98,736	-	103,518
Trade and other payables	20,190	14,737	6,847	-	21,584
Interest rate swap derivatives	2,642	970	2,166	-	3,136
Deferred acquisition consideration	8,949	2,869	6,872	-	9,741
Total	**124,375**	**23,358**	**114,621**	**-**	**137,979**

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL MANAGEMENT RISK (CONTINUED)

COMPANY 2014	CARRYING VALUE $000	LESS THAN 1 YEAR $000	BETWEEN 1 & 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000
Financial Assets					
Interest rate swap derivatives	196	80	302	38	420
Total	**196**	**80**	**302**	**38**	**420**
Financial Liabilities					
Borrowings	30,844	1,599	33,927	-	35,526
Trade and other payables	516	516	-	-	516
Interest rate swap derivatives	562	527	1,576	121	2,224
Total	**31,922**	**2,642**	**35,503**	**121**	**38,266**
2013					
Financial Liabilities					
Borrowings	43,659	2,029	48,003	-	50,032
Trade and other payables	701	701	-	-	701
Interest rate swap derivatives	355	181	287	-	468
Total	**44,715**	**2,911**	**48,290**	**-**	**51,201**

CREDIT RISK

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 and investments in debt securities.

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.

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

Capital Management Risk

The primary objective of the Group's capital management is to ensure 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. No changes were made to the objective, policies or processes during the year ended 31 May 2014. The Group monitors capital using a gearing ratio, which is net bank debt divided by total equity plus net bank debt. The Group includes within net bank debt, gross bank borrowings less cash and cash equivalents.

The Group gearing ratio as at 31 May 2014 was 44.4% (2013: 52.1%).

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL MANAGEMENT RISK (CONTINUED)

Financial Instruments by Category

GROUP

	FAIR VALUE THROUGH PROFIT OR LOSS $000	DERIVATIVES USED FOR HEDGING $000	LOANS AND RECEIVABLES $000	TOTAL $000
Assets per Balance Sheet				
31 May 2014				
Cash and cash equivalents	-	-	6,279	6,279
Trade and other receivables excluding prepayments	-	-	26,696	26,696
Derivative financial instruments	-	16	-	16
	-	**16**	**32,975**	**32,991**
31 May 2013				
Cash and cash equivalents	-	-	8,547	8,547
Trade and other receivables excluding prepayments	-	-	25,461	25,461
	-	**-**	**34,008**	**34,008**

	FAIR VALUE THROUGH PROFIT OR LOSS $000	DERIVATIVES USED FOR HEDGING $000	LOANS AND RECEIVABLES $000	TOTAL $000
Liabilities per Balance Sheet				
31 May 2014				
Borrowings	-	-	83,949	83,949
Finance leases	-	-	5,961	5,961
Trade and other payables	-	-	14,705	14,705
Deferred acquisition consideration	-	-	8,727	8,727
Derivative financial instruments	-	2,161	-	2,161
	-	**2,161**	**113,342**	**115,503**
31 May 2013				
Borrowings	-	-	92,594	92,594
Finance leases	-	-	7,385	7,385
Trade and other payables	-	-	12,805	12,805
Deferred acquisition consideration	-	-	8,949	8,949
Derivative financial instruments	-	2,642	-	2,642
	-	**2,642**	**121,733**	**124,375**

Carrying amounts are analogous to fair value.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL MANAGEMENT RISK (CONTINUED)

COMPANY

	FAIR VALUE THROUGH PROFIT OR LOSS $000	DERIVATIVES USED FOR HEDGING $000	LOANS AND RECEIVABLES $000	TOTAL $000
Assets per Balance Sheet				
31 May 2014				
Cash and cash equivalents	-	-	1,164	1,164
Trade and other receivables excluding prepayments	-	-	91,509	91,509
Derivative financial instruments	180	16	-	196
	180	**16**	**92,673**	**92,869**
31 May 2013				
Cash and cash equivalents	-	-	1,273	1,273
Trade and other receivables excluding prepayments	-	-	90,495	90,495
	-	**-**	**91,768**	**91,768**

	FAIR VALUE THROUGH PROFIT OR LOSS $000	DERIVATIVES USED FOR HEDGING $000	LOANS AND RECEIVABLES $000	TOTAL $000
Liabilities per Balance Sheet				
31 May 2014				
Borrowings	-	-	30,844	30,844
Trade and other payables	-	-	516	516
Derivative financial instruments	180	382	-	562
	180	**382**	**31,360**	**31,922**
31 May 2013				
Borrowings	-	-	43,659	43,659
Trade and other payables	-	-	701	701
Derivative financial instruments	-	355	-	355
	-	**355**	**44,360**	**44,715**

FAIR VALUE ADJUSTMENTS

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)

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL MANAGEMENT RISK (CONTINUED)

FAIR VALUE ADJUSTMENTS (CONTINUED)

GROUP	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
As at 31 May 2014				
Financial assets				
Interest rate swaps - cash flow hedges	-	16	-	16
Financial liabilities				
Interest rate swaps - cash flow hedges	-	2,161	-	2,161
Measured at amortised cost				
Deferred acquisition consideration	-	-	8,727	8,727
As at 31 May 2013				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	2,642	-	2,642
Measured at amortised cost				
Deferred acquisition consideration	-	-	8,949	8,949

COMPANY	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
As at 31 May 2014				
Financial assets				
Interest rate swaps - cash flow hedges	-	16	-	16
Interest rate swaps	-	180	-	180
	-	196	-	196
Financial liabilities				
Interest rate swaps - cash flow hedges	-	382	-	382
Interest rate swaps	-	180	-	180
	-	562	-	562
As at 31 May 2013				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	355	-	355

There were no transfers between any levels and no change in valuation techniques during the years ended 31 May 2014 and 2013.

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 are the same store sales growth rate (2014: 2% - 3%) and the discount rate (2014: 3% - 4%). 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.

Changes in deferred acquisition consideration carried at fair value derived from non-market observable valuation inputs (level 3) are summarised in note 20. Sensitivities to reasonably possible changes in non-market observable valuation inputs would not have a material impact on the Group's financial results and are also summarised in note 20.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENTS

2011 Executive Share Scheme

On 7 November 2011 the Board approved the Executive Share Scheme (the Scheme). The Scheme provides for certain employees to be issued shares (Share Scheme Shares), for which the Company provides an interest free loan. 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 20 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 performance targets to be achieved during 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 amount of the value of the put option.

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 weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $0.38 per option. The significant inputs into the model were weighted average share price of $4.05 at the grant date, exercise price shown above, volatility of 19.55%, an expected option life of three years, and an annual risk-free interest rate of 3.09%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

The option was valued at $85,429 and the Group is amortising this value over the period of service. During the current year $28,476 was charged to the income statement as executive remuneration.

Set out below is a summary of movements in the number of shares attached to cash benefits granted under the scheme:

GRANT DATE	VESTING DATE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	DIVIDEND REINVESTMENT PLAN	EXERCISED DURING THE YEAR	BALANCE AT END OF THE YEAR
31 May 2014						
5-Dec-11	31-May-14	239,544	-	7,521	-	247,065
TOTAL		**239,544**	**-**	**7,521**	**-**	**247,065**
31 May 2013						
5-Dec-11	31-May-14	230,546	-	8,998	-	239,544
TOTAL		**230,546**	**-**	**8,998**	**-**	**239,544**

26. RELATED PARTY INFORMATION

The Group has related-party transactions with its subsidiaries (see note 10), jointly controlled entities (see note 11) and with its directors and executive officers.

Related party transactions

Mr P Hutson was an executive director of the Company until September 2013. He holds shares in the Company indirectly in his capacity as a trustee of various trusts and through Healthcare Industry Limited (HIL).

Mr P Hutson, Mrs A Hutson and Mr S Wright (the Hutson interests) are all parties related to Abano and have interests in the ongoing operations of Bay International Limited. The Hutson interests hold shares in the Company indirectly in their capacity as trustee of various trusts and through HIL.

Bay International Limited

The Hutson interests hold a 50% shareholding in Bay International Limited with consequential shareholding, employment, logistical and governance arrangements. The operations of Bay International Limited and its subsidiaries are funded by the Group and the Hutson interests on a 50:50 basis.

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED-PARTY INFORMATION (CONTINUED)

DRP, Placement and Share Purchase Plan

Interests associated with the Hutson interests wholly own HIL which participated in the DRP during the year (refer note 16). On 1 June 2013, HIL held 2,460,573 shares (14.4%) in the Company. 49,792 shares were issued in respect of full participation in the DRP in August 2013, following which HIL held 2,510,365 shares (14.5%). In the placement undertaken in September 2013 HIL was allotted 316,000 shares, to total 2,826,365 shares (15.0%) then a further 2,522 shares were allotted in October 2013 as a participant in the share purchase plan to total 2,828,887 shares (13.9%). 30,945 shares were issued in respect of full participation in the DRP in January 2014, following which HIL held 2,859,832 shares (13.9%).

Other related party transactions

The Group provides funding to Bay International Limited, on a 50:50 basis with the Hutson interests, via a shareholder loan. The balance of the loan at 31 May 2014 was $21.8M (2013: $20.1M). During the year $2.2M of the share of losses in the Bay Group were offset against the loan, refer to note 13, with the net loan balance at 31 May 2014 being $12.4M (2013:$12.9M).

The Group leases premises from interests associated with Mr M Timoney who was an associated person until February 2013 through a directorship of, and had an indirect shareholding in, Dental Partners Pty Limited. During the year rentals totalling $403,000 (2013: $338,000) were paid by the Group. No monies were owed by the Group at 31 May 2014 (2013: nil) and the lease was carried out at arms length and on normal commercial terms.

The Group leases premises from interests associated with Mr D Garofalo who was an associated person until August 2013 through a directorship of, and had an indirect shareholding in, Dental Partners Pty Limited. During the year rentals totalling $243,000 (2013: $223,000) were paid by the Group. No monies were owed by the Group at 31 May 2014 (2013: nil) and the lease was carried out at arms length on normal commercial terms.

The Group utilises the services of CME Radiology Services Limited for the provision of radiology services, rental of radiology equipment 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 $700,000 (2013: $678,000) were provided by CME Radiology Services Limited. There was no balance owed by the Group at 31 May 2014 (2013: nil).

Valley Diagnostics Laboratories Limited (VDL) has a 45% shareholding in Aotea Pathology Limited. At 31 May 2014 VDL's shareholder current account balance was $1,945,000 receivable from Aotea (2013: $1,873,000 receivable).

Transactions between the Company and its subsidiaries include cash advances, expenditure recharges and the provision of management services. At year end a balance of $79.0M was owed by subsidiaries (2013: $77.7M).

The key management compensations are as follows:

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Key management compensation [1]				
Short term benefits	5,579	5,453	2,106	1,912
Other long term benefits	369	401	284	284
Share based payments	28	28	28	28
	5,976	**5,882**	**2,418**	**2,224**

[1] Key management consists of the executive team of the Company and its subsidiaries.

An interest free loan is provided to employees of the Company under the Executive Share Scheme (refer note 25). The balance of the loan at 31 May 2014 was $918,000 (2013: $918,000).

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENCIES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Amount committed to capital expenditure	1,011	225	-	-

As at 31 May 2014 the Group has capital commitments in relation to the purchase of plant and equipment and software for the following subsidiary:

	$000
Lumino Dental Limited	856
Ascot Radiology Limited	155
	1,011

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 2014 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

28. SUBSEQUENT EVENTS

BUSINESS ACQUISITIONS

The Group has acquired one dental practice since balance date:

Garden Place Dental (Hamilton) 30 June 2014

The financial impact from the acquisition of this practice was not considered material to the Group.

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER

As at 31 May 2014, 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 2014 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
D Chan	A1 Flower Wholesalers Limited	Director/Shareholder
	Academic Colleges Group Limited and subsidiaries	Director/Shareholder
	Alpha Asset Management Limited	Director/Shareholder
	ARN Investments Limited	Director/Shareholder
	ASPEQ Limited and subsidiaries	Director
	Auckland Tourism, Events & Economic Development (ATEED)* (appointed 1 July 2013)	Director
	Aviation English Services* (ceased 31 August 2013)	Director
	Bio Pacific Management Limited	Director
	Cloud M Limited* (commenced April 2014)	Shareholder
	Danting Investments Limited	Director/Shareholder
	Department of Prime Minister and Cabinet - China Project* (appointed 2 May 2013)	Member
	East Horizon Limited	Director/Shareholder
	Education Investment Limited	Director/Shareholder
	Farmers Mutual Group (FMG)* (appointed 22 November 2013)	Director
	Flowerzone International Limited and subsidiaries	Director/Shareholder
	Green Cut Limited	Director/Shareholder
	Griff Trading Limited	Director/Shareholder
	Lady White Snake Film Limited	Director/Shareholder
	NZ China Advisory Council	Member
	NZ Markets Disciplinary Tribunal	Member
	New Zealand Yacon Limited	Director/Shareholder
	Orient Group Limited and subsidiaries	Director/Shareholder
	Orpac International Limited	Director/Shareholder
	Pisces Trustees Company* (appointed March 2013)	Trustee
	Planit Products NZ Limited	Director/Shareholder
	Pot Plant Shop Limited	Director/Shareholder
	Rhino Security Limited and subsidiaries	Director/Shareholder
	Sharp Multi-Media Productions Limited	Director/Shareholder
	Simtics Limited	Director/Shareholder
	Sunwave Enterprises Limited* (ceased 18 June 2013)	Director/Shareholder
	Tahere Callas Limited and subsidiary	Director/Shareholder
	Talaford Investments Limited and subsidiary	Director/Shareholder
	The Academic Coaching School Limited	Director/Shareholder
	Turners Flower Exports NZ Limited	Director/Shareholder
A W Clarke	Abano Healthcare Group Limited An interest in the 2011 Executive LTI Scheme. Abano lent Mr Clarke $675,000 on 5th December 2011 to enable Mr Clarke to acquire 166,666 ordinary shares in Abano under the 2011 Executive LTI Scheme	Director/Shareholder
	Ainslie Kempthorne Family Trust and associated interests* (appointed March 2010)	Trustee
	Auckland City Surgical Services Limited	Chairman
	Corder Family Trust and associated interests* (appointed July 2006)	Trustee
	Edtech Limited	Shareholder
	NIB nzed Limited	Chairman
	The Professionals Club LP* (commenced 29 November 2013)	Limited Partner
	The St Cuthbert's College Education Trust Board	Trustee

ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER (CONTINUED)

DIRECTOR	ENTITY	INTEREST
P J Dunphy	Auckland Transport* (ceased 31 July 2013)	Deputy Chair
	FSF Management Company Limited	Independent Director
	Mint Asset Management Limited	Chairman
	Next Foundation* (appointed March 2014)	Advisor
	NZ Clearing and Depository Limited and subsidiaries	Chairman
	NZ Post Limited* (ceased 31 October 2013)	Director
	NZ Super Fund	Director
	Solid Energy NZ Limited	Chair
T D Janes	Accident Compensation Corporation	Deputy Chair & Investment Committee Chair
	International Development Advisory and Selection Panel	Member
	Mighty River Power Limited* (ceased 31 December 2013)	Deputy Chair
	NZ Markets Disciplinary Tribunal	Member
	NZ Post Network Access Committee	Member
	ProCare Health Limited	Director
	Rovert Investments Limited	Director/Shareholder
	Selenium Corporation Limited	Director/Shareholder
	The Public Trust* (ceased 30 June 2013)	Chair
S M Paterson	Airways Corporation of New Zealand Limited and subsidiaries	Chair
	Auckland Hockey Association* (ceased April 2014)	Chairman
	Electricity Authority	Board Member
	Goodman (NZ) Limited and subsidiaries	Director
	Home of Cycling	Chairman
	Housing New Zealand Limited	Director
	Indoor Sports and Leisure Centre Limited	Director
	International Accreditation NZ	Council Member
	Les Mills NZ Limited	Director
	NZ Ecolabelling Trust* (ceased June 2013)	Chairman
	Theta Systems Limited	Chairman
E K van Arkel	Auckland Regional Chamber of Commerce and Industry Limited	Director
	AWF Group Limited	Director
	Danske Mobler Limited	Director
	Health Benefits Limited	Chair
	Lang Properties Limited	Director/Shareholder
	Nestle NZ Limited* (ceased 31 March 2014)	Director
	Philip Yates Securities Limited and subsidiaries	Director
	Restaurant Brands Limited and subsidiaries	Chairman
	The Warehouse Group Limited	Chairman
	Unitec Limited and subsidiaries* (ceased 30 April 2014)	Chairman
	Van Arkel & Co Limited	Director/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
D Chan	23 Aug 13	$6.30	62	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	8 Oct 13	$5.95	981	Participation in the Share Purchase Plan (SPP)
	8 Nov 13	$6.89	1,328	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
	24 Jan 14	$6.21	59	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2014 interim dividend
	22 May 14	$6.93	1,320	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
A W Clarke	23 Aug 13	$6.30	7,453	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	8 Oct 13	$5.95	2,522	Participation in the Share Purchase Plan (SPP)
	24 Jan 14	$6.21	4,139	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2014 interim dividend
P J Dunphy	23 Aug 13	$6.30	61	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	8 Oct 13	$5.95	253	Participation in the Share Purchase Plan (SPP)
	8 Nov 13	$6.89	1,595	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
	24 Jan 14	$6.21	54	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2014 interim dividend
	22 May 14	$6.93	1,584	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
P L Hutson[1]	23 Aug 13	$6.30	49,792	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	2 Sep 13	$5.95	316,000	Participation in Share Placement
T D Janes	23 Aug 13	$6.30	191	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	8 Oct 13	$5.95	2,522	Participation in the Share Purchase Plan (SPP)
	24 Jan 14	$6.21	133	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2014 interim dividend
	5 Feb 14	$5.90	3,098	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
S M Paterson[2]	23 Aug 13	$6.30	105	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	8 Oct 13	$5.95	1,659	Participation in the Share Purchase Plan (SPP)
	8 Nov 13	$6.89	2,255	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
	24 Jan 14	$6.21	101	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2014 interim dividend
	22 May 14	$6.93	2,242	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan
E K van Arkel	23 Aug 13	$6.30	65	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2013 final dividend
	8 Oct 13	$5.95	1,037	Participation in the Share Purchase Plan (SPP)
	24 Jan 14	$6.21	47	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2014 interim dividend
	5 Feb 14	$5.90	1,548	Purchase of ordinary shares through the market pursuant to the Directors Fixed Trading Share Plan

1 Peter Hutson's shareholdings are held indirectly in his capacity as a trustee of various trusts and through Healthcare Industry Limited.

2 Susan Paterson's shareholdings are held indirectly in her capacity as a trustee of the S M Taylor Family Trust.

ADDITIONAL STATUTORY INFORMATION

DIRECTORS' SHAREHOLDINGS

As at 31 May 2014

	BENEFICIAL INTEREST		NON-BENEFICIAL INTEREST	
	2014	2013	2014	2013
D Chan	6,807	3,057	-	-
A W Clarke	382,413	368,299	-	-
P J Dunphy	6,539	2,992	-	-
T D Janes	15,404	9,460	-	-
S M Paterson	-	-	11,531	5,169
E K van Arkel	5,927	3,230	-	-

REMUNERATION OF DIRECTORS

Remuneration and other benefits.	2014 $	2013 $
D Chan	55,000	52,917
A W Clarke	817,076	812,922
P J Dunphy[1]	66,000	42,595
P L Hutson[2]	101,419	304,204
T D Janes	110,000	105,833
A M Paterson[3]	-	25,000
S M Paterson	93,500	89,958
E K van Arkel	55,000	52,917

1 Appointed on 25 September 2012

2 Resigned on 19 September 2013

3 Resigned on 30 October 2012

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	A W Clarke	R G Keys	A R Tapper			
Abano Radiology Limited	A W Clarke	R G Keys	A R Tapper			
Aotea Pathology Limited	A W Clarke	R G Keys	C J Jackson	C R Temple-Camp	K P Wood	
Ascot Radiology Limited[1]	A W Clarke	R G Keys	R N Davis	D G Milne	D R Rogers	P A Weeks
Dental Partners Pty Limited	A W Clarke	R G Keys	A W Bubear	D R Garofalo[2]	A R Tapper	
Dental Investments Holdings Limited[3]	A W Clarke	R G Keys	A W Bubear	M D Lean	A R Tapper	
Lumino Dental Limited	A W Clarke	R G Keys	A R Tapper			
Millennium Radiology Limited[1]	A W Clarke	R G Keys	R N Davis	D G Milne	D R Rogers	P A Weeks
Orthotic Centre (NZ) Limited	A W Clarke	R G Keys	D S Currie	P D Ward		
Wellington Pathology Limited	A W Clarke	R G Keys				

1 On 30 September 2013 Millennium Radiology Limited and Ascot Radiology Limited amalgamated to become Ascot Radiology Limited

2 Resigned on 5 July 2013

3 On 29 May 2014, notification to de-register the company was approved by the Australian Securities and Investments Commission

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		COMPANY	
	2014	2013	2014	2013
$100,001 - $110,000	16	16	-	-
$110,001 - $120,000	10	11	-	-
$120,001 - $130,000	8	11	-	-
$130,001 - $140,000	9	6	-	-
$140,001 - $150,000	3	4	-	-
$150,001 - $160,000	4	1	-	-
$160,001 - $170,000	5	2	-	-
$170,001 - $180,000	2	2	-	-
$180,001 - $190,000	1	1	-	-
$190,001 - $200,000	-	1	-	-
$200,001 - $210,000	1	4	1	1
$210,001 - $220,000	3	-	-	-
$220,001 - $230,000	1	-	-	-
$230,001 - $240,000	1	-	1	-
$260,001 - $270,000	1	-	-	-
$270,001 - $280,000	1	-	-	-
$280,001 - $290,000	-	1	-	-
$290,001 - $300,000	-	1	-	-
$300,001 - $310,000	1	1	-	-
$330,001 - $340,000	1	2	-	-
$340,001 - $350,000	-	1	-	-
$350,001 - $360,000	4	-	-	-
$360,001 - $370,000	-	1	-	-
$410,001 - $420,000	1	1	-	-
$490,001 - $500,000	1	-	-	-
$530,001 - $540,000	-	1	-	1
$540,001 - $550,000	1	-	1	-
$550,001 - $560,000	-	1	-	-
$580,001 - $590,000	-	1	-	1
$590,001 - $600,000	1	-	1	-

SPREAD OF SECURITY HOLDERS

As at 14 July 2014

SIZE OF SHAREHOLDING	NUMBER OF HOLDERS	TOTAL SHARES HELD	% OF SHARES
1 - 4,999	1,835	2,542,887	12.38%
5,000 - 9,999	221	1,518,168	7.39%
10,000 - 49,999	134	2,332,739	11.36%
50,000 - 99,999	9	610,794	2.97%
100,000 - 499,999	17	3,768,816	18.35%
500,000 - 999,999	2	1,737,526	8.47%
1,000,000 or more	4	8,026,549	39.08%
	2,222	**20,537,479**	**100%**

ADDITIONAL STATUTORY INFORMATION

SHAREHOLDER INFORMATION

Twenty largest security holders as at 14 July 2014

	ORDINARY SHARES	% HOLDING
ASB Nominees Limited	2,859,832	13.92%
TEA Custodians Limited	2,797,708	13.62%
Forsyth Barr Custodians Limited	1,188,325	5.79%
Accident Compensation Corporation	1,180,684	5.75%
National Nominees New Zealand Limited	895,731	4.36%
Superlife Trustee Nominees Limited	841,795	4.10%
Forsyth Barr Custodians Limited	470,802	2.29%
Custodial Services Limited	449,239	2.19%
Alan William Clarke	382,413	1.86%
Sok Eng Boey & Yeow Ann Chiam & Kay Hong Chiam & Shen Mei Chiam	358,448	1.75%
Forsyth Barr Custodians Limited	337,614	1.65%
Rotorua Trust Perpetual Capital Fund Limited	262,058	1.28%
Custodial Services Limited	178,956	0.87%
Lloyd James Christie	171,446	0.83%
Richard Keys & Kathryn Keys & Ronald Bruell	171,048	0.83%
James Livingstone Reeves & Nicola Jane Reeves & Gary Chapman Trustee Limited	151,161	0.74%
Jarden Custodians Limited	150,000	0.73%
Clinton Adam Teague	144,553	0.70%
Grant Michael Novak & Jacqueline Francesca Vervoort & NKS Trustees Limited	140,000	0.68%
Custodial Services Limited	135,597	0.66%
	13,267,410	64.60%

SUBSTANTIAL SECURITY HOLDERS

According to filings made to the Company as at 14 July 2014, the substantial security holders of the Company are listed below. The total number of listed voting securities (ordinary shares) of the Company as at 14 July 2014 was 20,537,479.

	DATE OF NOTICE	NUMBER OF SHARES
Healthcare Industry Limited	10 Apr 14	3,811,644
Peter Lionel Hutson, Anya Lee Hutson and Lewis Grant	10 Apr 14	3,811,644
Alison McRae Wright, Scott Eric Wright and Kevin David Pitfield	10 Apr 14	3,811,644
ASB Nominees Limited	10 Apr 14	3,811,644
Steamboat Capital Limited	10 Apr 14	3,811,644
James Livingstone Reeves	10 Apr 14	3,811,644
Field Nominees Limited	10 Apr 14	3,811,644
James Livingstone Reeves, Nicola Jane Reeves and Gary Chapman Trustees Limited	10 Apr 14	3,811,644
Fisher Funds Management Limited	4 Sep 13	1,653,755
Blair Tallott[1]	13 May 11	1,034,639
Accident Compensation Corporation	13 May 11	1,026,503

1 Aggregation of interests in securities held by Blair Tallott and Accident Compensation Corporation (ACC). Blair Tallott is an employee and portfolio manager for ACC. Under current ACC investment policies, he has the discretion to exercise control over the rights to vote and acquisition of disposal of some of all of the securities of which ACC is the beneficial owner.

NZX WAIVERS

On 7 October 2011, NZX granted Abano a waiver from Rules 7.6.4(b)(iii) and 7.6.1(f)(i) to enable it to provide financial assistance to the managing director for the purpose of subscribing for shares under the Company's performance based share scheme ("Scheme") and to allow Abano to acquire shares from the managing director pursuant to the Scheme, without seeking shareholder approval. The waiver was granted subject to certain conditions, including that the quantum of the financial assistance provided to the managing director does not exceed $675,000 over the three-year period of the Scheme.

CORPORATE GOVERNANCE

As at 28 July 2014

The Company continues to monitor developments in best practice governance and update its policies accordingly, to ensure it maintains the most appropriate standards for governance for Abano Healthcare Group (the Company).

All independent directors are also members of the Institute of 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 Board considers that the Company's governance practices comply with the NZX Corporate Governance Best Practice Code in its entirety for the financial year ended 31 May 2014 (FY14).

NZX CORPORATE GOVERNANCE BEST PRACTICE CODE

1. CODE OF ETHICS

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

The Board has adopted a policy on Ethical Conduct which is designed to formalise the Group's commitment to the highest standards of ethical conduct and to provide employees and representatives with clear guidance on those standards. The policy directs the Board to give proper attention to the matters before them; and requires a general obligation from directors to act in the best interests of the Company, as required by law.

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

2. DIRECTORS

Separation of Chief Executive and Chairman

The chairman is selected by the Board from the non-executive directors. The Board supports the separation of the role of chairman and managing director. The chairman's role is to manage the Board effectively, to provide leadership to the Board and to facilitate the Board's interaction with the managing director.

Appointments to the Board

The procedure for the nomination, appointment and removal of directors is ultimately governed by the Company's constitution.

The Board may at any time appoint additional directors. However, such a director may hold office only until the next annual meeting of the Company (but will be eligible for election at that meeting).

The nomination process is the responsibility of the whole Board and all directors are members of the Nomination Committee.

Directors may also be nominated by shareholders under NZX Listing Rule 3.3.5. Shareholders are provided with ten business days' notice of the closing date of nominations, which is not greater than two months prior to the annual meeting. The Company notifies shareholders of this time period through a market announcement to the NZX.

A director may be appointed by ordinary resolution and all directors are subject to removal by ordinary resolution.

At least one third of the directors retire from office at the annual meeting each year. The directors who retire in each year are those who have been longest in office since their last election or deemed election (unless otherwise exempted in accordance with the NZX Listing Rules).

Director Training

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.

Director Remuneration

Remuneration of directors and executives is the key responsibility of the Remuneration Committee.

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.

An increase to directors' fees was last approved at the 2012 annual meeting. All non-executive directors receive $55,000 per annum, the deputy chairman receives $82,500 per annum, the chairman receives $110,000 per annum, and each committee chair receives a further $11,000 per annum. At the 2013 annual meeting the total annual pool of funds that is reserved for flexibility to provide additional remuneration for non-executive Directors, who assume additional responsibilities and take on an increased workload throughout the year, was increased from $50,000 to $150,000. This was not utilised during FY14.

Details of directors' remuneration are detailed on page 46 of the 2014 Annual Report.

In June 2012, the Board approved the implementation of a new director remuneration arrangement, whereby shares are issued to participating non-executive directors in lieu of 50% of the after-tax fees payable to them. These shares are acquired on market, on a quarterly basis. This policy is in line with NZX Corporate Governance Best Practice Code 2.7 whereby directors are encouraged to invest a portion of their cash remuneration in the Company's shares.

Under NZX Listing Rule 3.5.2, the Board may only make a payment to a director upon cessation or retirement from office with shareholder approval. The current Board policy is that no sum is paid to a director upon retirement or cessation of office.

Information for the Board

Directors receive materials for Board meetings four days in advance, except in the case of special meetings, where the time period may be shorter due to urgency of the matter to be considered.

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.

Board Performance

The Board is responsible to shareholders for the strategic overview and direction of the Company. The Board has a policy of annual evaluation of individual and Board performance. The evaluation is undertaken by each member of the Board. Any issues identified are discussed and action taken to improve on those areas.

3. COMMITTEES

The Board has delegated a number of its responsibilities to committees to assist in the execution of the Board's responsibilities. The current committees of the Board are the Risk Assurance and Audit Committee, Remuneration Committee and Nomination Committee. Also during the year, a Capital Raising Committee was established. The membership and responsibilities of each committee are summarised below.

The committees meet as required and have terms of reference, which are approved and reviewed by the Board. 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.

Risk Assurance and Audit Committee

The role of the Risk Assurance and Audit Committee is to assist the Board in fulfilling its risk assurance and audit responsibilities in relation to the Company and each of its subsidiaries. The Risk Assurance and Audit Committee provides additional oversight and advice to the Board, as to the following:

- Accounting practices, including compliance with relevant standards and financial information reporting processes of the Group and thereby the quality and reliability of the financial information used by the Board, and of the financial information issued publicly by the Company;
- Internal control mechanisms;
- Risk management policies, processes and framework;
- Internal and external audit functions; and
- Policies and processes adopted to ensure compliance with legislation, regulations and codes of practice.

Although the Board as a whole is responsible for the accuracy and relevance of the Company's financial statements, the Risk Assurance and Audit Committee provides an additional and more specialised oversight of the financial reporting process. The Risk Assurance and Audit Committee is also charged with the responsibility of monitoring the performance of the Company's external auditor.

The existence and operation of the Risk Assurance and Audit Committee does not relieve any director from having the appropriate knowledge and understanding of the Company's business, value drivers and risks, or from reading, carefully considering and raising any questions relating to the Company's accounts and financial statements, including forecasts, dividends and dividend policy.

The existence of the Risk Assurance and Audit Committee enhances the credibility and reliability of Company financial information and is an integral component of good risk management practice.

The Risk Assurance and Audit Committee must be comprised of at least three non-executive directors, of whom at least two must be independent and at least one must have financial expertise (that is, be a qualified accountant or other financial professional with financial and accounting experience). The chairman of the Risk Assurance and Audit Committee must not be the chairman of the Company. A quorum for a meeting is two members of the committee. In addition, the managing director, the chief financial officer and external auditor are invited to attend all meetings of the committee.

The current members of the Risk Assurance and Audit Committee are Pip Dunphy (chairman), Danny Chan and Trevor Janes. All members are independent directors. The Risk Assurance and Audit Committee met three times during FY14.

Remuneration Committee

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

The Remuneration Committee is also responsible for recommending remuneration packages for directors to the shareholders.

The current members of the Remuneration Committee are Susan Paterson (chairman) and Ted van Arkel, both of whom are independent directors. The Remuneration Committee met once during FY14.

Nomination Committee

The Board has constituted a Nomination Committee comprised of all directors. The responsibilities of the Nomination Committee are outlined in the Board Charter. The Nomination Committee is responsible for identifying and recommending candidates for nomination as director. When recommending candidates to act as director, the Nomination Committee takes into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other directors.

There were no formal meetings of the Nomination Committee during FY14. However, matters involving director nominations and appointments were discussed and agreed at Board meetings.

Capital Raising Committee

During the year, a Capital Raising Committee was established for the sole purpose of reviewing and verifying the capital raising documents. The members of the committee were Pip Dunphy (chairman), Trevor Janes and Alan Clarke. Pip Dunphy and Trevor Janes are independent directors and the Capital Raising Committee met twice during the year.

Auditor Independence

All audit work at Abano is fully separated from non-audit services, to ensure that appropriate independence is maintained. The Board has a policy in place to ensure that audit independence is maintained, both in fact and appearance, such that Abano's external financial reporting is viewed as being highly reliable and credible.

The policy's principles of independence with respect to services provided by auditors are largely predicated on three basic principles, violations of which would impair the auditor's independence: (1) an auditor cannot function in the role of management; (2) an auditor cannot audit his or her own work; and (3) an auditor cannot serve in a formal advocacy role (as barrister or solicitor) for his or her client.

The Risk Assurance and Audit Committee 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 Risk Assurance and Audit Committee also assesses the auditor's independence on an annual basis.

Under the Companies Act 1993, PricewaterhouseCoopers was automatically re-appointed as external auditors for the Company at the annual meeting in November 2013.

THE ROLE AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board is responsible for the management of the Company and its business in the shareholders' interests and is the final body of responsibility for all decision making within the Company.

Its governance structure and practices encourage the highest standards of ethical conduct, and provide accountability and control systems commensurate with the risks involved.

The Board's key responsibilities are to:

- Formulate the strategic direction of the Company;
- Ensure the purpose and strategy of the Company are understood by management and carried out according to a clear plan;
- Ensure the solvency of the Company by overseeing the financial and operational controls of the business and ensuring appropriate risk management strategies and policies; and
- Ensure quality governance by encouraging a culture that celebrates diversity, debate, thoughtful challenge and dissent at Board and management level.

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

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

Board membership

The Board currently consists of five independent directors and one executive managing director, who are elected based on the value they bring to the Board and against set criteria detailed in the Board Charter.

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

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.

As at 31 May 2014, the Board consisted of:

- Trevor Janes, Independent chairman
- Susan Paterson, Independent deputy chairman
- Pip Dunphy, Independent director
- Danny Chan, Independent director
- Ted van Arkel, Independent director
- Alan Clarke, Executive managing director

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

Director independence

In order for a director to be considered independent, the Board has determined that he or she must not be an executive of the Company, and must have no disqualifying relationship in terms of the NZX Listing Rules.

The Board has determined that all directors are independent, except for the executive managing director, Alan Clarke.

Meetings held and attended

The table below sets out director attendance at Board and committee meetings during FY14. In total, there were 32 Board meetings, three Risk Assurance and Audit Committee meetings, one Remuneration Committee meeting and two Capital Raising Committee meetings. 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	Remuneration Committee	Capital Raising Committee
Total number of meetings held	**32**	**3**	**1**	**2**
Trevor Janes	32	3	1	2
Susan Paterson	28	-	1	-
Pip Dunphy	29	3	1	2
Danny Chan	31	3	1	-
Ted van Arkel	29	-	1	-
Peter Hutson[1]	5	-	1	-
Alan Clarke	32	2	1	2

1 Peter Hutson resigned on 19 September 2013

Disclosure of interests by directors

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

Details of all matters entered into the interests register by individual directors are on pages 43 and 44 of the 2014 Annual Report. The declaration of an interest by a director in a particular entity as a shareholder or director serves as notice that the director may benefit from any transaction between the Company or the Group and the identified entities.

Directors' share dealings

The Board Policy Manual and the Directors' Share Trading policy sets out the procedures to be followed by directors when trading in shares in the Company. All employees and directors of Abano and its subsidiaries are restricted in terms of trading securities of Abano. The restrictions require consent to be granted to any transactions involving such persons and securities of Abano, with any transactions limited to specified periods. The policy expressly prohibits trading by any director or employee when they are an information insider in possession of material information.

Details of directors share dealings are outlined on page 45 of the 2014 Annual Report.

Directors' use of information

No member of the Board or of the Board of the Company's subsidiaries, issued a notice to use information received by them in their capacity as directors, which would not otherwise have been available to them.

Indemnification and insurance of officers and directors

The 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).

4. MANAGING RISK

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 provides an additional and more specialised oversight of Company risks.

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

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

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

The Board is responsible for monitoring corporate risk assessment processes.

5. REMUNERATION OF EXECUTIVES

Executive remuneration comprises a fixed base salary and a variable short term bonus payable annually.

Bonuses are paid against targets agreed with executives at the commencement of the year, and are based on profitability, growth and personal objectives.

In addition, in the 2012 financial year, a new long term performance based share scheme was implemented for the managing director and chief financial officer, on materially similar terms to the 2008 scheme approved by shareholders. 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 40 of the 2014 Annual Report.

Details of executives' remuneration and entitlements are detailed under Remuneration of Employees information on page 47 of the 2014 Annual Report.

6. DIVERSITY

The Board supports diversity on both the Board and within its businesses, and recognises the value in different viewpoints and perspectives offered by people of different backgrounds, age, experience, race and gender.

As at 31 May 2014, females represent 25% (2013: 23%) of directors and officers of the Company (an officer is a person who is within two tiers of reporting to the Board).

	Total	Male	Female
Officers	6	5	1
Directors	6	4	2
	12	9	3

In addition, females represent 31% (2013: 31%) of the Company's business management teams, holding the positions of General Manager, Financial Controller and Operations Managers.

7. DISCLOSURE

The Company's continuous disclosure policy governs the release to the market of all material information that may affect the value of the Company. The Board requires that senior management, particularly the managing director and chief financial officer, consider carefully whether information is material and arrange for its release to the market if it is. The continuous disclosure officer is the chief financial officer.

In addition, the managing director and chief financial officer are responsible for the generation of financial reports, for review by the Risk Assurance and Audit Committee and for audit by external auditors.

8. SHAREHOLDER REPORTING

In each year, the Company provides shareholders with an annual and interim (six-month) report. Abano also produces and mails out an annual summary Shareholder Review to all shareholders. This is a companion document to the more accounts-focussed Annual Report which is available on request and can be viewed on the Company's website at www.abanohealthcare.co.nz.

The Company also provides shareholders with a bi-annual newsletter, which provides an overview of the Company's progress, an update of each sector's performance and news from the healthcare and medical services market.

We encourage shareholders to receive all communications from the Company electronically. This ensures shareholders receive communications in a timely manner, saves on costs and is beneficial to the environment.

Copies of all major news releases, announcements and Company reports are available on the Company's website. Shareholders may subscribe to receive news announcements electronically by completing the News Subscription form online on the Company's website.

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

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

Stakeholders' interests

The Company has a wide range of stakeholders and maintains open channels of communication for all audiences, including shareholders, brokers, the investing community and the New Zealand Shareholders' Association.

Bi-annual newsletters, half year reports and annual reports are distributed to a wide range of stakeholders by the Company and management encourages phone calls and communications from interested parties. In addition, regular newsletters are produced and distributed by individual businesses within the Group and provide updates of business activities and events.

DIRECTORS

Danny Chan
Appointed 19 December 2008

Alan William Clarke
Appointed 31 October 2001

Philippa (Pip) Dunphy
Appointed 26 September 2012

Peter Lionel Hutson
Resigned 19 September 2013

Trevor David Janes
Chairman
Appointed 23 September 2005

Susan Marie Paterson
Deputy Chairman
Appointed 23 September 2005

Eduard (Ted) Koert van Arkel
Appointed 5 July 2011

AUDIT AND RISK ASSURANCE COMMITTEE

Chairman: Pip Dunphy
Danny Chan
Trevor Janes

REMUNERATION COMMITTEE

Chairman: Susan Paterson
Ted van Arkel

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
Vero Centre
48 Shortland Street, Auckland

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay Street, Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland

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