

# Abano Healthcare Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2015

**INCOME STATEMENT**

For the six months ended 30 November 2015 (unaudited)

	NOTE	TOTAL NOV 2015 \$000	DISCONTINUED NOV 2015 \$000	CONTINUING NOV 2015 \$000	TOTAL NOV 2014 \$000	DISCONTINUED NOV 2014 \$000	CONTINUING NOV 2014 \$000
Revenue		107,999	-	107,999	114,905	20,500	94,405
Patient consumables and cost of products sold		(16,113)	-	(16,113)	(19,382)	(5,620)	(13,762)
Employee benefits		(59,509)	-	(59,509)	(61,218)	(8,763)	(52,455)
Depreciation and amortisation		(5,047)	-	(5,047)	(5,181)	(372)	(4,809)
Occupancy costs		(8,052)	-	(8,052)	(8,311)	(1,058)	(7,253)
Acquisition and transaction costs		(457)	-	(457)	(510)	-	(510)
Other operating expenses		(11,813)	-	(11,813)	(11,134)	(1,108)	(10,026)
Other operating income		700	-	700	566	15	551
<b>Operating profit</b>	2	<b>7,708</b>	<b>-</b>	<b>7,708</b>	<b>9,735</b>	<b>3,594</b>	<b>6,141</b>
Finance income		97	-	97	480	30	450
Finance expenses		(2,986)	-	(2,986)	(3,471)	(79)	(3,392)
Fair value amortisation and revaluation of deferred acquisition consideration	9	(63)	-	(63)	346	-	346
Fair value amortisation of provisions		(12)	-	(12)	(17)	-	(17)
Foreign exchange gain		17	-	17	3	-	3
Impairment of subsidiary held for sale		-	-	-	(361)	(361)	-
Gain on sale of business		-	-	-	27	-	27
Share of profit/(loss) of jointly controlled entity	6	231	-	231	(359)	-	(359)
<b>Profit before income tax</b>		<b>4,992</b>	<b>-</b>	<b>4,992</b>	<b>6,383</b>	<b>3,184</b>	<b>3,199</b>
Income tax expense		(1,609)	-	(1,609)	(2,253)	(1,005)	(1,248)
<b>Profit for the period</b>		<b>3,383</b>	<b>-</b>	<b>3,383</b>	<b>4,130</b>	<b>2,179</b>	<b>1,951</b>
Attributable to :							
<b>Equity holders of the Company share of profit</b>		3,392	-	3,392	3,489	1,560	1,929
Non-controlling interests share of profit/(loss)		[9]	-	[9]	641	619	22
		<b>3,383</b>	<b>-</b>	<b>3,383</b>	<b>4,130</b>	<b>2,179</b>	<b>1,951</b>
Earnings per share (cents)		16.14	-	16.14	16.89	7.55	9.34

**STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 November 2015 (unaudited)

	NOV 2015 \$000	NOV 2014 \$000
Profit for the period - continuing	3,383	1,951
Profit for the period - discontinued	-	2,179
<b>Profit for the period</b>	<b>3,383</b>	<b>4,130</b>
<b>Other comprehensive income</b>		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges, net of tax	156	(82)
Exchange differences on translating foreign operations	861	(272)
<b>Total comprehensive income for the period</b>	<b>4,400</b>	<b>3,776</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	4,409	3,135
Non-controlling interests	(9)	641
	<b>4,400</b>	<b>3,776</b>

**BALANCE SHEET**

As at 30 November 2015 (unaudited)

	NOTE	NOV 2015 \$000	NOV 2014 \$000	MAY 2015 \$000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3	44,772	40,395	40,559
Intangible assets	3	164,831	138,893	147,442
Derivative financial instruments		63	-	-
Non-current receivables		2,369	2,433	2,307
Investment in Joint Venture	6	11,950	12,049	12,044
Deferred tax asset		2,973	3,787	2,895
<b>Total non-current assets</b>		<b>226,958</b>	<b>197,557</b>	<b>205,247</b>
<b>Current assets</b>				
Cash and cash equivalents		4,461	5,916	3,904
Current trade and other receivables		6,412	11,854	6,086
Inventories		5,998	5,975	5,896
Derivative financial instruments		-	5	-
Assets of subsidiary classified as held for sale		-	12,424	-
<b>Total current assets</b>		<b>16,871</b>	<b>36,174</b>	<b>15,886</b>
<b>TOTAL ASSETS</b>		<b>243,829</b>	<b>233,731</b>	<b>221,133</b>
<b>EQUITY</b>				
Share capital		44,845	41,431	43,300
Foreign currency translation reserve		(3,427)	(3,978)	(4,288)
Cash flow hedge reserve		(1,731)	(1,591)	(1,887)
Retained earnings		52,738	59,463	52,478
<b>Total equity attributable to equity holders of the Company</b>		<b>92,425</b>	<b>95,325</b>	<b>89,603</b>
Non-controlling interest		749	1,218	770
<b>Total equity</b>		<b>93,174</b>	<b>96,543</b>	<b>90,373</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	7	112,795	92,254	89,891
Non-current payables		3,068	4,852	3,751
Deferred tax liabilities		260	251	187
Derivative financial instruments		2,435	2,263	2,476
Deferred acquisition consideration	9	7,051	5,398	6,371
Provisions		562	536	538
<b>Total non-current liabilities</b>		<b>126,171</b>	<b>105,554</b>	<b>103,214</b>
<b>Current liabilities</b>				
Borrowings		-	2,458	-
Derivative financial instruments		70	-	196
Current income tax liabilities		447	1,187	1,058
Deferred acquisition consideration	9	1,645	3,372	3,647
Trade and other payables		22,322	23,584	22,529
Provisions		-	-	116
Liabilities of subsidiary classified as held for sale		-	1,033	-
<b>Total current liabilities</b>		<b>24,484</b>	<b>31,634</b>	<b>27,546</b>
<b>Total liabilities</b>		<b>150,655</b>	<b>137,188</b>	<b>130,760</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>243,829</b>	<b>233,731</b>	<b>221,133</b>

**STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 November 2015 (unaudited)

	NOTE	SHARE CAPITAL \$000	TREASURY SHARES \$000	FOREIGN EXCHANGE TRANSLATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL \$000	NON-CONTROLLING INTEREST \$000	TOTAL EQUITY \$000
<b>Balance at 1 June 2014</b>		<b>40,940</b>	<b>(918)</b>	<b>(3,706)</b>	<b>(1,509)</b>	<b>58,787</b>	<b>93,594</b>	<b>1,265</b>	<b>94,859</b>
<b>Comprehensive income</b>									
Profit for the period		-	-	-	-	3,489	3,489	641	4,130
<b>Other comprehensive income</b>									
Cash flow hedge movement									
Fair values losses		-	-	-	(112)	-	(112)	-	(112)
Tax benefit on fair value losses		-	-	-	30	-	30	-	30
Foreign exchange translation reserve		-	-	(272)	-	-	(272)	-	(272)
Total other comprehensive income		-	-	(272)	(82)	-	(354)	-	(354)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(272)</b>	<b>(82)</b>	<b>3,489</b>	<b>3,135</b>	<b>641</b>	<b>3,776</b>
<b>Transactions with owners</b>									
Dividends paid		-	-	-	-	(2,852)	(2,852)	(688)	(3,540)
Dividend reinvestment plan	8	1,395	-	-	-	-	1,395	-	1,395
Executive compensation expense		14	-	-	-	-	14	-	14
Foreign investor tax credits recognised		-	-	-	-	39	39	-	39
<b>Total transactions with owners</b>		<b>1,409</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,813)</b>	<b>(1,404)</b>	<b>(688)</b>	<b>(2,092)</b>
<b>Balance at 30 November 2014</b>		<b>42,349</b>	<b>(918)</b>	<b>(3,978)</b>	<b>(1,591)</b>	<b>59,463</b>	<b>95,325</b>	<b>1,218</b>	<b>96,543</b>
<b>Balance at 1 June 2015</b>		<b>43,300</b>	<b>-</b>	<b>(4,288)</b>	<b>(1,887)</b>	<b>52,478</b>	<b>89,603</b>	<b>770</b>	<b>90,373</b>
<b>Comprehensive Income</b>									
Profit/(loss) for the year		-	-	-	-	3,392	3,392	(9)	3,383
<b>Other comprehensive income</b>									
Cash flow hedge movement									
Fair values gains		-	-	-	230	-	230	-	230
Tax liability on fair value gains		-	-	-	(74)	-	(74)	-	(74)
Foreign exchange translation reserve		-	-	861	-	-	861	-	861
Total other comprehensive income		-	-	861	156	-	1,017	-	1,017
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>861</b>	<b>156</b>	<b>3,392</b>	<b>4,409</b>	<b>(9)</b>	<b>4,400</b>
<b>Transactions with owners</b>									
Dividends paid		-	-	-	-	(3,177)	(3,177)	(12)	(3,189)
Dividend reinvestment plan	8	1,486	-	-	-	-	1,486	-	1,486
Executive compensation expense	10	59	-	-	-	-	59	-	59
2015 share scheme - shares issued		352	-	-	-	-	352	-	352
2015 share scheme - transfer of shares to treasury stock		-	(352)	-	-	-	(352)	-	(352)
Foreign investor tax credits recognised		-	-	-	-	45	45	-	45
<b>Total transactions with owners</b>		<b>1,897</b>	<b>(352)</b>	<b>-</b>	<b>-</b>	<b>(3,132)</b>	<b>(1,587)</b>	<b>(12)</b>	<b>(1,599)</b>
<b>Balance at 30 November 2015</b>		<b>45,197</b>	<b>(352)</b>	<b>(3,427)</b>	<b>(1,731)</b>	<b>52,738</b>	<b>92,425</b>	<b>749</b>	<b>93,174</b>

**STATEMENT OF CASH FLOWS**

For the six months ended 30 November 2015 (unaudited)

	NOTE	NOV 2015 \$000	NOV 2014 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		109,007	114,082
Payments to suppliers and employees		(96,807)	(103,598)
Interest received		49	450
Interest paid		(2,962)	(3,622)
Income tax paid		(2,245)	(2,287)
Discontinued operations		-	2,365
<b>Net cash generated from operating activities</b>		<b>7,042</b>	<b>7,390</b>
<b>Cash flows from investing activities</b>			
Sale of property, plant and equipment		314	-
Sale of business		-	27
Purchase of property, plant and equipment	3	(8,006)	(3,873)
Purchase of businesses	4	(17,929)	(11,640)
Dividends paid to non-controlling interests		(12)	(11)
Other investing cash flows		310	(64)
Discontinued operations		-	(771)
<b>Net cash used in investing activities</b>		<b>(25,323)</b>	<b>(16,332)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		21,324	11,971
Repayment of borrowings		(768)	(860)
Equity raised - dividend reinvestment plan	8	1,486	1,395
Dividends paid		(3,177)	(2,852)
Discontinued operations		-	(1,395)
<b>Net cash used in financing activities</b>		<b>18,865</b>	<b>8,259</b>
<b>Net increase/(decrease) in cash held</b>		<b>584</b>	<b>(683)</b>
Cash at beginning of the period		3,904	6,279
Net increase/(decrease) in cash held		584	(683)
Exchange gain on cash and cash equivalents held by foreign subsidiaries		(27)	136
<b>Cash at end of period</b>		<b>4,461</b>	<b>5,732</b>
<b>Cash comprises:</b>			
Cash at bank		4,461	6,228
Bank overdraft		-	(496)
		<b>4,461</b>	<b>5,732</b>

**RECONCILIATION OF OPERATING CASH FLOWS**

For the six months ended 30 November 2015 (unaudited)

	NOV 2015 \$000	NOV 2014 \$000
<b>Profit for the year</b>	<b>3,392</b>	<b>3,489</b>
<b>Non-cash items:</b>		
Depreciation	4,649	4,828
Amortisation of intangible assets	398	353
Recognition of deferred tax asset	(115)	(693)
Fair value amortisation and revaluation of deferred acquisition consideration	63	(346)
Fair value amortisation of provisions	12	-
Foreign investor tax credits recognised	45	39
Executive compensation expense	59	14
Impairment of subsidiary held for sale	-	361
Share of surplus/(loss) retained by non-controlling interests	(9)	641
	<b>5,102</b>	<b>5,197</b>
<b>Movement in working capital:</b>		
Increase in trade and other receivables	(18)	(228)
Decrease in trade and other payables	(1,621)	(2,176)
Decrease/(increase) in inventories	(84)	266
	<b>(1,723)</b>	<b>(2,138)</b>
<b>Items classified as investing activities:</b>		
Realised loss on sale of property, plant and equipment	45	-
Realised gain on sale of subsidiary	-	(27)
Acquisition and divestment costs	457	510
Share of loss/(profit) in jointly controlled entity	(231)	359
	<b>271</b>	<b>842</b>
<b>Net cash flows from operating activities</b>	<b>7,042</b>	<b>7,390</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. Statement of Accounting Policies

The basis of preparation and the accounting policies used in the preparation of the interim financial statements are consistent with those of the financial statements for the year ended 31 May 2015.

The interim financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS34: Interim Financial Reporting. These interim financials statements should be read in conjunction with the annual financial statements for the year ended 31 May 2015, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards.

### 2. Segment Information

For the six months ended 30 November 2015	Dental \$000	Diagnostics <sup>1</sup> \$000	Audiology \$000	Rehabilitation \$000	Corporate \$000	Segment Total \$000	Equity Account for Audiology \$000	Reported Total \$000
<b>Gross revenue<sup>2</sup></b>	122,550	7,405	21,815	-	-	151,770	(21,815)	129,955
<b>Revenue</b>	100,594	7,405	21,815	-	-	129,814	(21,815)	107,999
Earnings before interest, tax, depreciation and amortisation (EBITDA)	13,369	1,060	1,015	-	(1,674)	13,770	(1,015)	12,755
Depreciation and amortisation	(4,016)	(999)	(492)	-	(32)	(5,539)	492	(5,047)
<b>Operating profit</b>								<b>7,708</b>
Net financing costs								(2,964)
Foreign exchange gain								17
Share of profit of jointly controlled entity								231
<b>Net profit before tax</b>								<b>4,992</b>
Acquisition and transaction costs included in EBITDA	457	-	-	-	-	457	-	457
<b>TOTAL ASSETS</b>	209,255	21,122	23,900	-	13,452	267,729	(23,900)	243,829
<b>TOTAL LIABILITIES</b>	104,593	4,606	49,848	-	41,456	200,503	(49,848)	150,655
<b>CAPITAL EXPENDITURE</b>	6,068	1,475	875	-	285	8,703	(875)	7,828

For the six months ended 30 November 2014	Dental \$000	Diagnostics \$000	Audiology \$000	Rehabilitation \$000	Corporate \$000	Segment Total \$000	Equity Account for Audiology \$000	Reported Total \$000
<b>Gross revenue<sup>2</sup></b>	105,670	22,060	19,579	5,886	-	153,195	(19,579)	133,616
<b>Revenue</b>	86,959	22,060	19,579	5,886	-	134,484	(19,579)	114,905
Earnings before interest, tax, depreciation and amortisation (EBITDA)	11,910	3,910	602	1,111	(2,015)	15,518	(602)	14,916
Depreciation and amortisation	(3,799)	(1,310)	(864)	(45)	(27)	(6,045)	864	(5,181)
<b>Operating profit</b>								<b>9,735</b>
Net financing costs								(2,659)
Share of loss of jointly controlled entity								(359)
Impairment of subsidiary held for sale								(361)
Gain on sale of business								27
<b>Net profit before tax</b>								<b>6,383</b>
Acquisition and transaction costs included in EBITDA	481	-	-	-	29	510	-	510
<b>TOTAL ASSETS</b>	169,506	35,100	23,525	15,156	13,969	257,256	(23,525)	233,731
<b>TOTAL LIABILITIES</b>	86,489	12,299	50,964	1,033	37,367	188,152	(50,964)	137,188
<b>CAPITAL EXPENDITURE</b>	3,527	213	387	54	17	4,198	(387)	3,811

<sup>1</sup> Diagnostics this period includes only the Radiology business as Aotea Pathology was sold on 1 May 2015.

<sup>2</sup> Gross revenue includes revenue from the equity accounted Bay Group and Australian dental revenues before payment of dentists' commissions.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****3. Property, Plant & Equipment and Intangible Assets**

During the six months to 30 November 2015 the Group acquired property, plant and equipment with a cost of \$7.2m (30 November 2014: \$3.8m) and intangible assets (excluding goodwill) of \$0.6m (30 November 2014: \$0.4m).

An additional \$1.5m of property, plant and equipment was acquired as part of business acquisitions during the six months (30 November 2014: \$1.3m).

**4. Acquisition of Businesses**

During the six months to 30 November 2015 the Group acquired the following businesses for a total cash consideration of \$14.6m and deferred consideration of \$1.5m. The payment of deferred consideration is subject to achieving future performance targets which are generally in excess of the current EBITDA. All acquisitions were asset purchases with the Group obtaining 100% control.

	ACQUISITION DATE
Wellington Orthodontic Associates (Wellington)	10 Jun 15
Love Your Smile Dental Group (NSW)	30 Jun 15
Perio Care Brisbane Implant and Dentistry (QLD)	1 Jul 15
Harish Lala Endodontist (Auckland)	30 Sep 15
Bay Orthodontics (Tauranga)	30 Sep 15
Harris Dental (Christchurch)	30 Oct 15
Gianni Dental (Auckland)	17 Nov 15
All Smiles Repaired (VIC)	26 Nov 15

**Summary of the effect of the above acquisitions:**

	DENTAL \$000
<b>Fair value of net assets acquired:</b>	
Current assets	317
Current liabilities	(548)
Non-current assets	1,453
Goodwill on acquisition	14,916
<b>Total consideration</b>	<b>16,138</b>
Cash paid	14,602
Deferred acquisition consideration	1,536
<b>Total consideration</b>	<b>16,138</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****4. Acquisition of Businesses (Continued)**

The acquired businesses have contributed revenue and EBITDA to the Group, in the period from their acquisition date to 30 November 2015, of \$3.7m and \$1.0m respectively.

The revenue and EBITDA to 30 November 2015 had the businesses and assets been acquired at the beginning of the period are estimated at \$6.4m and \$1.8m for the six months respectively.

Refer note 9 for the methodology applied to fair value the deferred acquisition consideration.

**5. Disposal of Subsidiaries in Prior Year****Sale of Orthotic Centre (N.Z.) Limited**

On 30 January 2015 the Company sold its New Zealand orthotics business, Orthotic Centre (N.Z.) Limited to Orthotic Group Holdings Limited for \$10.8m plus a subsequent net asset adjustment of \$0.3m, resulting in a loss on sale of \$0.9m. A further deferred contingent cash payment of up to \$0.6m (receivable twelve months following settlement) has not been recognised in the financial statements as performance cannot be reliably estimated at this time.

**Sale of Aotea Pathology Limited**

On 1 May 2015 the Company sold its New Zealand pathology business, a 55 percent shareholding in Aotea Pathology Limited to Wellington SCL Limited, a wholly owned subsidiary of Healthscope New Zealand Limited, for \$1 plus a subsequent net asset adjustment of \$0.1m, resulting in a loss of \$8.1m.

The results of the above businesses are presented in these financial statements as discontinued operations in the prior year. The income statement and cash flow statement distinguish discontinued operations from continuing operations and comparative figures for the six month period ended 30 November 2014 have been restated.

**6. 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:

		NOV 2015	NOV 2014
Bay International Limited	Audiology	50%	50%
Bay Audio Pty Limited <sup>1</sup>	Audiology	47.5%	47.5%
Bay Audiology (Singapore) PTE Limited <sup>1</sup>	Audiology	50%	50%
Bay Audiology (Malaysia) SDN. BHD. <sup>1</sup>	Audiology	50%	50%
Bay Audiology (Taiwan) Limited <sup>1</sup>	Audiology	50%	50%

<sup>1</sup> Direct subsidiaries of Bay International Limited

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****6. Investments in Jointly Controlled Entities (Continued)**

Bay Audio Pty Limited is incorporated in Australia, 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.

As at 30 November 2015, Bay Audio Pty Limited has unrecognised tax losses of A\$15.7m of which A\$7.5m is Abano's share (47.5%).

**7. Borrowings**

The Group's net bank debt as at 30 November 2015 was \$108.3m (30 November 2014: \$86.8m). The Group currently has facilities with ASB Bank of \$50m (\$41.9m utilised) and A\$85m (A\$64.5m utilised). The Group bank debt is non current.

**8. Dividend Reinvestment Plan**

Under the Dividend Reinvestment Plan (DRP), applied to the dividend paid on 21 August 2015, the Company issued 199,944 shares at \$7.48 per share.

The issue price was determined, in accordance with the DRP, as the volume weighted average sale price for all Abano shares sold on the NZX over the five trading days immediately following the record date of 12 August 2015, less a 2.5% discount.

**9. Fair Value Measurement**

The following table sets out an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair values 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).

	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000	TOTAL \$000
<b>As at 30 November 2015</b>				
<b>Financial assets</b>				
Interest rate swaps - cash flow hedges	-	63	-	63
<b>Financial liabilities</b>				
Interest rate swaps - cash flow hedges	-	2,505	-	2,505
<b>Measured at amortised cost</b>				
Deferred acquisition consideration	-	-	8,696	8,696

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****9. Fair Value Measurement (Continued)**

	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000	TOTAL \$000
<b>As at 30 November 2014</b>				
<b>Financial assets</b>				
Interest rate swaps - cash flow hedges	-	5	-	5
<b>Financial liabilities</b>				
Interest rate swaps - cash flow hedges	-	2,263	-	2,263
<b>Measured at amortised cost</b>				
Deferred acquisition consideration	-	-	8,770	8,770

There were no transfers between any levels and no change in valuation techniques during the six months ended 30 November 2015 and 2014.

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 a range of same store sales growth rates of 1.5% to 4% (30 November 2014: 1% to 4%) and discount rates of 3.1% to 5.5% (30 November 2014: 3% to 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.

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

	NOV 2015 \$000	NOV 2014 \$000
<b>Reconciliation - deferred consideration</b>		
Opening balance at start of period	10,018	8,727
Deferred consideration paid during period	(3,042)	(881)
Deferred consideration on new acquisitions	1,536	1,291
Fair value amortisation on deferred acquisitions	306	168
Foreign exchange movement	137	(52)
Prior deferred consideration revalued against goodwill	(16)	31
Prior deferred consideration revalued (recognised in Income Statement)	(243)	(514)
<b>Closing balance at end of period</b>	<b>8,696</b>	<b>8,770</b>
Total fair value movements for the period included in the Income Statement for liabilities held at the end of the reporting period	63	(346)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

### 10. 2015 Executive Share Scheme

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

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

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

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

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

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

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

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

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

The Share-based payment expense of \$351,750 will be amortised over the period of service. The total to be expensed is dependent on the expectation, at a point in time, that the performance hurdles will be met. The Board's expectation at 30 November 2015 is that it is probable the EPS CAGR of 22% will be met over the three year vesting period and thus \$58,626 has been charged to the income statement as executive remuneration in this six month period.

### 11. General Information

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

### 12. 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 30 November 2015 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

### 13. Subsequent Events

#### Business Acquisitions

The Group has acquired one dental practice since balance date:

Courtney Orthodontics (Palmerston North)	14 December 2015
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The financial impact from the acquisition of this practice was not considered material to the Group.

## **DIRECTORY**

### **DIRECTORS**

Eduard (Ted) van Arkel  
Appointed 5 July 2011

Murray Boyte  
Appointed 26 February 2015

Danny Chan  
Appointed 19 December 2008

Philippa (Pip) Dunphy  
Deputy Chairman  
Appointed 25 September 2012

Trevor Janes  
Chairman  
Appointed 23 September 2005

### **AUDIT AND RISK ASSURANCE COMMITTEE**

Chairman: Pip Dunphy  
Danny Chan  
Trevor Janes

### **REMUNERATION COMMITTEE**

Chairman: Ted van Arkel  
Murray Boyte  
Trevor Janes

### **REGISTERED OFFICE AND ADDRESS FOR SERVICE**

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

### **AUDITORS**

PricewaterhouseCoopers  
PricewaterhouseCoopers Tower  
188 Quay Street, Auckland

### **BANKERS**

ASB Bank Limited  
12 Jellicoe Street, Auckland  
  
Commonwealth Bank of Australia  
240 Queen Street  
Brisbane, Australia

### **SOLICITORS**

Harmos Horton Lusk  
Vero Centre  
48 Shortland Street, Auckland

### **SHARE REGISTRAR**

Computershare Investor Services Limited  
159 Hurstmere Road  
Takapuna, Auckland