

ABANO HEALTHCARE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2016

INCOME STATEMENT

For the six months ended 30 November 2016 (unaudited)

	NOTE	NOV 2016 \$000	NOV 2015 \$000
Revenue		116,809	107,999
Patient consumables and cost of products sold		(17,307)	(16,113)
Employee benefits		(63,161)	(59,509)
Depreciation and amortisation		(5,205)	(5,047)
Occupancy costs		(8,631)	(8,052)
Acquisition and transaction costs		(346)	(457)
Other operating expenses		(11,963)	(11,813)
Other operating income		1,066	700
Operating profit	2	11,262	7,708
Finance income		71	97
Finance expenses		(2,619)	(2,986)
Fair value amortisation and revaluation of deferred acquisition consideration	8	(80)	(63)
Fair value amortisation of provisions		(12)	(12)
Realised foreign exchange gain/(loss)		(16)	17
Share of profit of jointly controlled entity		-	231
Profit before income tax		8,606	4,992
Income tax expense		(2,581)	(1,609)
Profit for the period		6,025	3,383
Attributable to :			
Equity holders of the Company share of profit		5,874	3,392
Non-controlling interests share of profit/(loss)		151	(9)
		6,025	3,383
Earnings per share (cents)		27.48	16.14

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 November 2016 (unaudited)

	NOV 2016 \$000	NOV 2015 \$000
Profit for the period	6,025	3,383
Other comprehensive income		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges, net of tax	700	156
Exchange differences on translating foreign operations	(1,277)	861
Total comprehensive income for the period	5,448	4,400
Total comprehensive income attributable to:		
Equity holders of the Company	5,297	4,409
Non-controlling interests	151	(9)
	5,448	4,400

BALANCE SHEET

As at 30 November 2016 (unaudited)

	NOTE	NOV 2016 \$000	NOV 2015 \$000	MAY 2016 \$000
ASSETS				
Non-current assets				
Property, plant and equipment	3	47,227	44,772	46,397
Goodwill	4	178,386	162,089	170,542
Other intangible assets	3	4,460	2,742	3,351
Derivative financial instruments		-	63	-
Non-current receivables		2,490	2,369	2,494
Investment in Joint Venture		-	11,950	-
Deferred tax asset		3,021	2,973	3,049
Total non-current assets		235,584	226,958	225,833
Current assets				
Cash and cash equivalents		4,415	4,461	4,250
Current trade and other receivables		7,236	6,412	37,434
Inventories		6,667	5,998	6,136
Current income tax asset		17	(447)	(439)
Total current assets		18,335	16,424	47,381
TOTAL ASSETS		253,919	243,382	273,214
EQUITY				
Share capital		47,545	44,845	45,924
Foreign currency translation reserve		(6,147)	(3,427)	(4,870)
Cash flow hedge reserve		(1,783)	(1,731)	(2,483)
Retained earnings		77,308	52,738	75,681
Total equity attributable to equity holders of the Company		116,923	92,425	114,252
Non-controlling interest		921	749	776
TOTAL EQUITY		117,844	93,174	115,028
LIABILITIES				
Non-current liabilities				
Borrowings	6	97,393	112,795	117,784
Non-current payables		1,456	3,068	2,674
Deferred tax liabilities		223	260	153
Derivative financial instruments		2,401	2,435	3,192
Deferred acquisition consideration	8	6,538	7,051	6,893
Provisions		493	562	588
Total non-current liabilities		108,504	126,171	131,284
Current liabilities				
Derivative financial instruments		110	70	306
Deferred acquisition consideration		2,111	1,645	1,447
Trade and other payables		25,155	22,322	25,104
Provisions		195	-	45
Total current liabilities		27,571	24,037	26,902
TOTAL LIABILITIES		136,075	150,208	158,186
TOTAL EQUITY AND LIABILITIES		253,919	243,382	273,214

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2016 (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
Balance at 1 June 2015	43,300	-	(4,288)	(1,887)	52,478	89,603	770	90,373
Comprehensive Income								
Profit/(loss) for the year	-	-	-	-	3,392	3,392	(9)	3,383
Other comprehensive income								
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
Total comprehensive income	-	-	861	156	3,392	4,409	(9)	4,400
Transactions with owners								
Dividends paid	-	-	-	-	(3,177)	(3,177)	(12)	(3,189)
Dividend reinvestment plan	7	1,486	-	-	-	1,486	-	1,486
Executive compensation expense	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
Total transactions with owners	1,897	(352)	-	-	(3,132)	(1,587)	(12)	(1,599)
Balance at 30 November 2015	45,197	(352)	(3,427)	(1,731)	52,738	92,425	749	93,174
Balance at 1 June 2016	46,276	(352)	(4,870)	(2,483)	75,681	114,252	776	115,028
Comprehensive Income								
Profit/(loss) for the year	-	-	-	-	5,874	5,874	151	6,025
Other comprehensive income								
Cash flow hedge movement								
Fair values gains	-	-	-	988	-	988	-	988
Tax liability on fair value gains	-	-	-	(288)	-	(288)	-	(288)
Foreign exchange translation reserve	-	-	(1,277)	-	-	(1,277)	-	(1,277)
Total other comprehensive income	-	-	(1,277)	700	-	(577)	-	(577)
Total comprehensive income	-	-	(1,277)	700	5,874	5,297	151	5,448
Transactions with owners								
Dividends paid	-	-	-	-	(4,264)	(4,264)	(6)	(4,270)
Dividend reinvestment plan	7	1,562	-	-	-	1,562	-	1,562
Executive compensation expense	59	-	-	-	-	59	-	59
Foreign investor tax credits recognised	-	-	-	-	17	17	-	17
Total transactions with owners	1,621	-	-	-	(4,247)	(2,626)	(6)	(2,632)
Balance at 30 November 2016	47,897	(352)	(6,147)	(1,783)	77,308	116,923	921	117,844

STATEMENT OF CASH FLOWS

For the six months ended 30 November 2016 (unaudited)

	NOTE	NOV 2016 \$000	NOV 2015 \$000
Cash flows from operating activities			
Receipts from customers		130,480	121,597
Payments to suppliers and employees		(116,194)	(109,397)
Interest received		20	49
Interest paid		(2,663)	(2,962)
Income tax paid		(3,227)	(2,245)
Net cash generated from operating activities		8,416	7,042
Cash flows from investing activities			
Sale of property, plant and equipment		-	314
Sale of interest in jointly controlled entities	5	32,000	-
Purchase of property, plant and equipment	3	(5,425)	(8,006)
Purchase of businesses	4	(12,689)	(17,929)
Dividends paid to non-controlling interests		(6)	(12)
Other investing cash flows		50	310
Net cash generated/(used) in investing activities		13,930	(25,323)
Cash flows from financing activities			
Proceeds from borrowings		17,020	21,324
Repayment of borrowings		(36,616)	(768)
Equity raised - dividend reinvestment plan	7	1,562	1,486
Dividends paid		(4,264)	(3,177)
Net cash generated/(used) in financing activities		(22,298)	18,865
Net increase in cash held		48	584
Cash at beginning of the period		4,250	3,904
Net increase in cash held		48	584
Exchange gain/(loss) on net assets held by foreign subsidiaries		117	(27)
Cash at end of period		4,415	4,461
Cash comprises:			
Cash at bank		4,415	4,461
		4,415	4,461

RECONCILIATION OF OPERATING CASH FLOWS

For the six months ended 30 November 2016 (unaudited)

	NOV 2016 \$000	NOV 2015 \$000
Profit for the year	5,874	3,392
Non-cash items:		
Depreciation	4,788	4,649
Amortisation of intangible assets	417	398
Recognition of deferred tax asset	(283)	(115)
Fair value amortisation and revaluation of deferred acquisition consideration	80	63
Fair value amortisation of provisions	12	12
Foreign investor tax credits recognised	17	45
Executive compensation expense	59	59
Share of surplus/(loss) retained by non-controlling interests	151	(9)
	5,241	5,102
Movement in working capital:		
(Increase)/decrease in trade and other receivables	(1,877)	(18)
Increase/(decrease) in trade and other payables	(1,183)	(1,621)
(Increase)/decrease in inventories	6	(84)
	(3,054)	(1,723)
Items classified as investing activities:		
Realised loss on sale of property, plant and equipment	9	45
Acquisition and divestment costs	346	457
Share of profit in jointly controlled entity	-	(231)
	355	271
Net cash flows from operating activities	8,416	7,042

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 2016.

The condensed 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 2016, 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 2016	Dental \$000	Diagnostics \$000	Audiology \$000	Corporate \$000	Segment Total \$000
Gross revenue¹	130,479	8,383	-	-	138,862
Revenue	108,426	8,383	-	-	116,809
Earnings before interest, tax, depreciation and amortisation (EBITDA)	16,056	1,815	-	(1,404)	16,467
Depreciation and amortisation	(4,139)	(1,008)	-	(58)	(5,205)
Operating profit	11,917	807	-	(1,462)	11,262
Net financing costs					(2,640)
Foreign exchange gain					(16)
Net profit before tax					8,606
Acquisition and transaction costs included in EBITDA	333	-	-	13	346
TOTAL ASSETS	227,209	19,925	-	6,785	253,919
TOTAL LIABILITIES	92,696	3,834	-	39,545	136,075
CAPITAL EXPENDITURE	4,843	315	-	52	5,210

For the six months ended 30 November 2015	Dental \$000	Diagnostics \$000	Audiology \$000	Corporate \$000	Segment Total \$000	Equity Account for Audiology \$000	Reported Total \$000
Gross revenue¹	122,550	7,405	21,815	-	151,770	(21,815)	129,955
Revenue	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)
Operating profit	9,353	61	523	(1,706)	8,231	(523)	7,708
Net financing costs							(2,964)
Foreign exchange gain							17
Share of profit of jointly controlled entity							231
Net profit before tax							4,992
Acquisition and transaction costs included in EBITDA	457	-	-	-	457	-	457
TOTAL ASSETS	209,255	21,122	23,900	13,452	267,729	(23,900)	243,829
TOTAL LIABILITIES	104,593	4,606	49,848	41,456	200,503	(49,848)	150,655
CAPITAL EXPENDITURE	6,068	1,475	875	285	8,703	(875)	7,828

¹ Gross revenue includes Australian dental revenues before payment of dentists' commissions and revenue from the equity accounted Bay Group (comparative period).

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

During the six months to 30 November 2016 the Group acquired property, plant and equipment with a cost of \$3.7m (30 November 2015: \$7.2m) and intangible assets (excluding goodwill) of \$1.5m (30 November 2015: \$0.6m).

An additional \$2.2m of property, plant and equipment was acquired as part of business acquisitions during the six months (30 November 2015: \$1.5m).

4. Acquisition of Businesses

During the six months to 30 November 2016 the Group acquired the following businesses for a total cash consideration of \$11.9m and deferred consideration of \$0.7m. 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
Murray Dental (Christchurch)	30 Jun 16
Toothworkx (QLD)	30 Jun 16
Brendan O'Dea (Christchurch)	1 Jul 16
Tranquil Dental (QLD)	21 Jul 16
Knox Dental (Dunedin)	1 Aug 16
Plateau Dental Care (NSW)	3 Aug 16
Kieran O'Neill Orthodontics (Invercargill)	12 Aug 16
Darfield Dental (Darfield)	9 Sep 16
Newcastle Dental Laser Centre (QLD)	26 Sep 16
The Ortho Practice (NSW)	13 Oct 16
Leamington Dental (Cambridge)	1 Nov 16

Summary of the effect of the above acquisitions:

	DENTAL \$000
Fair value of net assets acquired:	
Current assets	622
Current liabilities	(394)
Non-current assets	2,178
Goodwill on acquisition	10,178
Total consideration	12,584
Cash paid	11,867
Deferred acquisition consideration	717
Total consideration	12,584

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 2016, of \$3.3m and \$0.9m respectively.

The revenue and EBITDA to 30 November 2016 had the businesses and assets been acquired at the beginning of the period are estimated at \$6.6m and \$1.5m for the six months respectively.

Refer note 8 for the methodology applied to fair value the deferred acquisition consideration.

5. Disposal of Investment in Jointly Controlled Entities in Prior Year

In May 2016, the Group agreed to sell its 50% shareholding in Bay International Limited to interests associated with its joint venture partner, Peter Hutson, resulting in a gain on sale of \$20.2m and a receivable of \$32.0m being recognised in the financial statements for the year ended 31 May 2016. Cash settlement of \$32.0m was received on 17 June 2016.

Prior to disposal, the Group had joint control of this entity and accounted for its interests in audiology in Australia and Asia using the equity method recognising 50% of profit of Bay International Limited in the Income Statement for the comparative period.

6. Borrowings

The Group's net bank debt as at 30 November 2016 was \$93.0m (30 November 2015: \$108.3m).

The Group currently has facilities with ASB Bank of \$60.8m (\$36.7m utilised) and A\$75m (A\$60.8m utilised). The Group bank debt is non current.

7. Dividend Reinvestment Plan

Under the Dividend Reinvestment Plan (DRP), applied to the dividend paid on 22 August 2016, the Company issued 194,282 shares at \$8.09 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 11 August 2016, less a 2.5% discount.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)**8. 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
As at 30 November 2016				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	2,511	-	2,511
Measured at amortised cost				
Deferred acquisition consideration	-	-	8,649	8,649
As at 30 November 2015				
Financial assets				
Interest rate swaps - cash flow hedges	-	63	-	63
Financial liabilities				
Interest rate swaps - cash flow hedges	-	2,505	-	2,505
Measured at amortised cost				
Deferred acquisition consideration	-	-	8,696	8,696

There were no transfers between any levels and no change in valuation techniques during the six months ended 30 November 2016 and 2015.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)**8. Fair Value Measurement (Continued)**

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 0.5% to 5% (30 November 2015: 1.5% to 4%) and discount rates of 2.9% to 3.8% (30 November 2015: 3.1% to 5.5%). 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 2016 \$000	NOV 2015 \$000
Reconciliation - deferred consideration		
Opening balance at start of period	8,340	10,018
Deferred consideration paid during period	(638)	(3,042)
Deferred consideration on new acquisitions	717	1,536
Fair value amortisation on deferred acquisitions	167	306
Foreign exchange movement	(82)	137
Provisional deferred consideration revalued against goodwill	232	(16)
Prior deferred consideration revalued (recognised in Income Statement)	(87)	(243)
Closing balance at end of period	8,649	8,696
Total fair value movements for the period included in the Income Statement for liabilities held at the end of the reporting period	80	63

9. General Information

The condensed consolidated interim financial statements presented are those of Abano Healthcare Group Limited and its subsidiaries (the Group). Abano Healthcare Group Limited is a company domiciled in New Zealand, is registered under the Companies Act 1993, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 under which the financial statements are prepared. The Group is a profit oriented entity.

10. 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 2016 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)**11. NZX Waiver**

On 26 May 2016, NZX granted Abano Healthcare Group Limited a waiver from NZX Main Board Listing Rule 9.2.1. In effect, this meant that Abano was not required to obtain shareholder approval for the sale of its 50% shareholding in Bay International Limited, and assignment of outstanding shareholder loans, to interests associated with Peter Hutson (being the trustees of the SF No. 2 Trust (Hutson Trustees)), a related party of Abano, for a cash payment of \$32.0m (the Transaction). The waiver was granted on two conditions, being that Abano's directors certified to NZX a number of matters (including that the terms of the Transaction are in the best interests of Abano and that the Hutson Trustees had no influence over Abano's decision to give, or the terms of, the sale notice which triggered the Transaction), and that the waiver, its conditions and the implications of the waiver are disclosed in Abano's next half-year report and annual report. The full details and text of the conditions of the waiver are available to view on NZX's website, www.nzx.com, under Abano's ticker code ABA.

12. Subsequent Events**Business Acquisitions**

The Group has acquired three dental practices since balance date:

Coastlands Dental Health Centre (Wellington)	7 December 2016
Lutwyche Dental (QLD)	16 December 2016
Hodgson & Muir Orthodontists (Auckland)	20 December 2016

The financial impact from the acquisition of these practices is 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

Dr Ginni Mansberg
Appointed 24 August 2016

AUDIT AND RISK ASSURANCE COMMITTEE

Chairman: Pip Dunphy
Danny Chan
Trevor Janes
Dr Ginni Mansberg

GOVERNANCE AND REMUNERATION COMMITTEE

Chairman: Ted van Arkel
Murray Boyte
Trevor Janes

REGISTERED OFFICE AND ADDRESS FOR SERVICE

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

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street, Auckland

BANKERS

ASB Bank Limited
12 Jellicoe Street, Auckland

Commonwealth Bank of Australia
240 Queen Street
Brisbane, Australia

SOLICITORS

Harmos Horton Lusk
Vero Centre
48 Shortland Street, Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland